

# EXHIBIT 80

# Risk Identification and Mitigation

## Selected Risks

Risks addressed separately from this report include:  
Human Resources, Litigation, Compliance, Facility,  
Security, Research and Development, Intellectual  
Property, EHS, and Environment.

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## Executive Summary

- 26 different risk types are reviewed in the 2013 Annual Financial Risk Identification and Mitigation Report. In summary, Purdue put in place adequate risk controls and risk mitigation tools in managing these risks.
- Standard risk reporting format is used: (i) Risk Owner, (ii) Elements of Risk, (iii) Existing Risk Management Controls, (iv) Further Actions, and (v) Reporting Procedures.
- The risk review process is based on a “standard” process recommended by the Institute of Management Accountants’ Statements on Management Accounting--*Enterprise Risk Management: Frameworks, Elements, and Integration*.
- The reporting format is based on a risk reporting template recommended by the Corporate Executive Board organization.
- Page 7 has the Table of Contents.

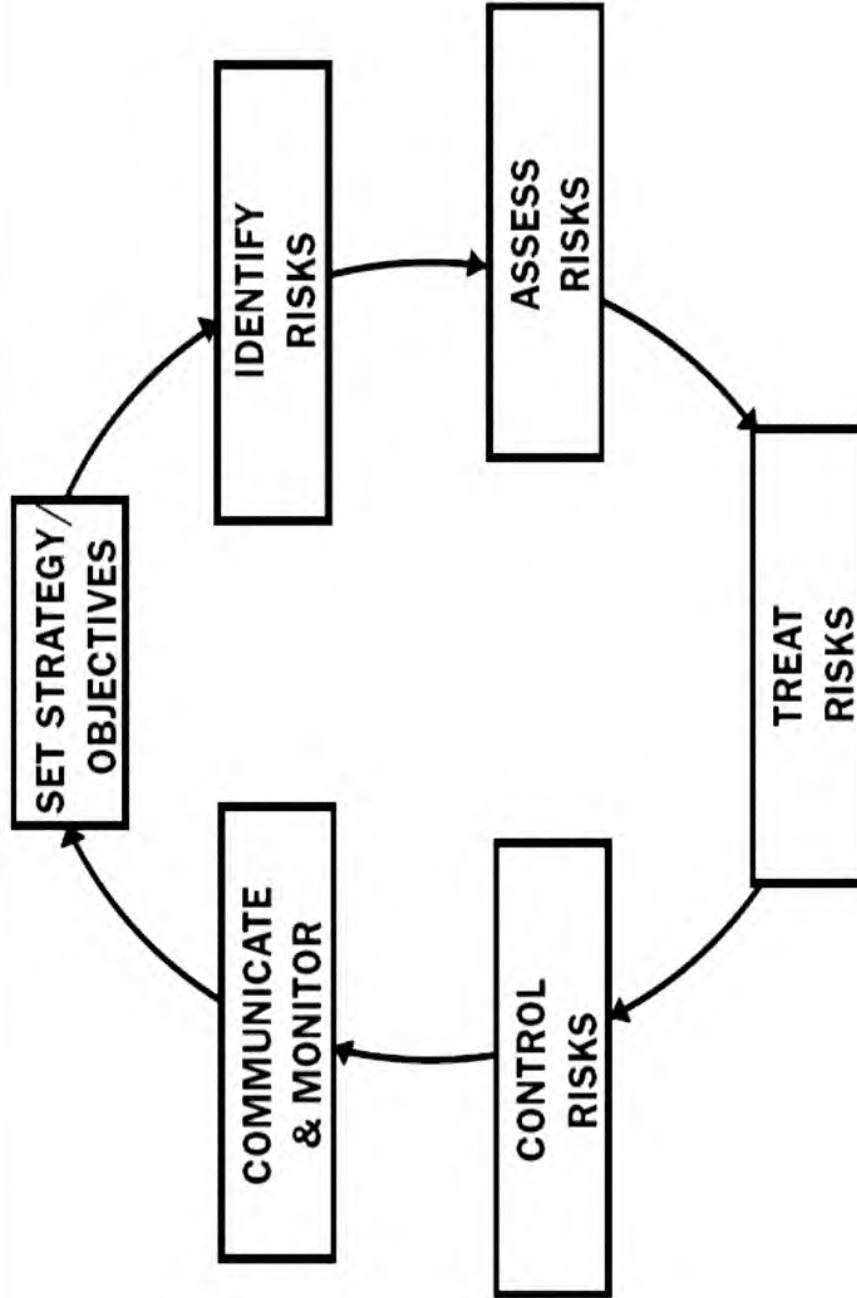
Note: This report only selects a limited number of risk types for review. This is not a comprehensive review of enterprise risks. A comprehensive Enterprise Risk Management review was completed with Purdue Executive Committee in Q2-2011, which is planned to be refreshed in 2014.

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# A Continuous Risk Management Process



Source: Adapted from Institute of Chartered Accountants in England and Wales, *No Surprises: The Case for Better Risk Reporting*, ICAEW, London, U.K., 1999, p. 47.

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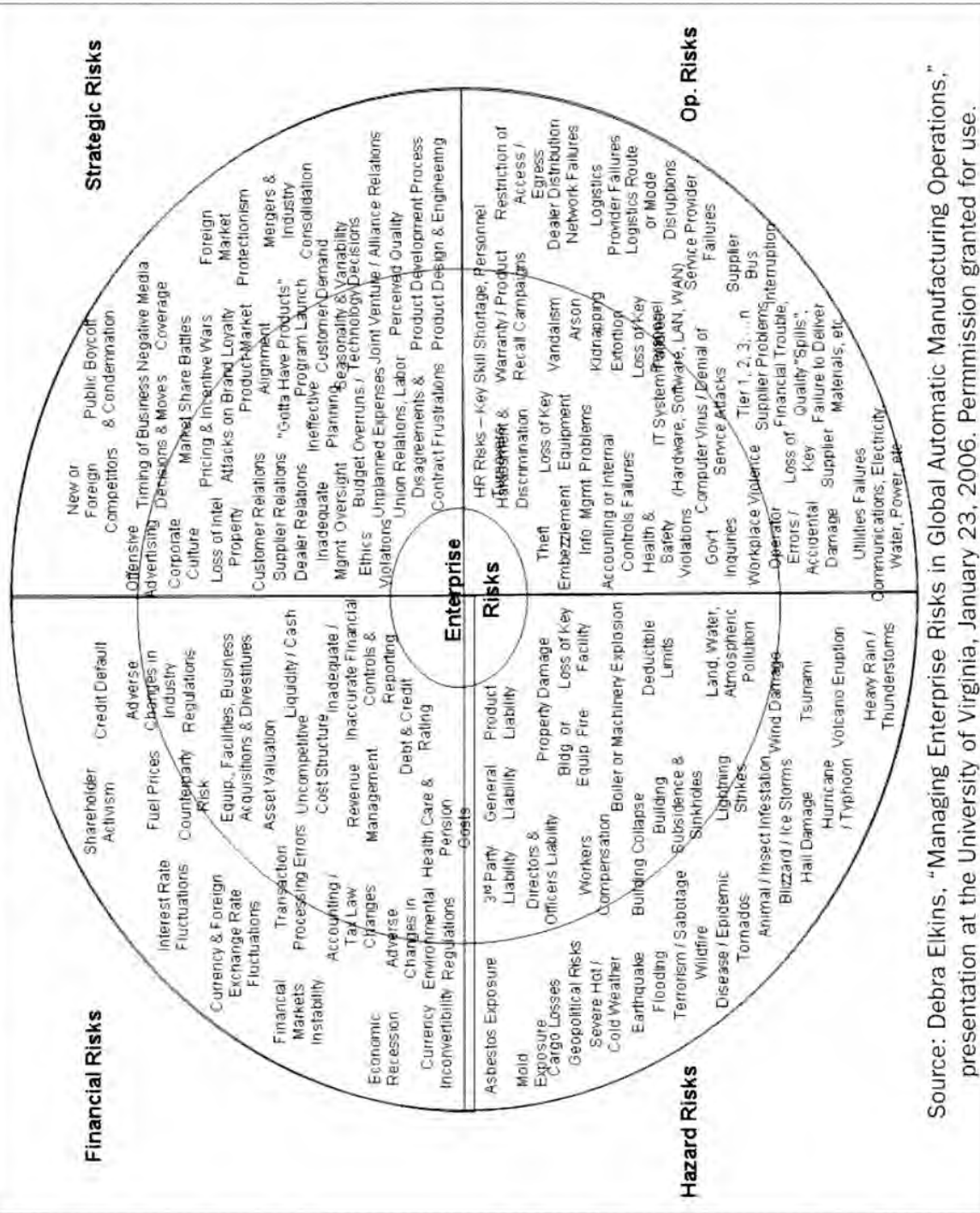
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# An Example of Comprehensive Risk



Source: Debra Elkins, "Managing Enterprise Risks in Global Automatic Manufacturing Operations," presentation at the University of Virginia, January 23, 2006. Permission granted for use.

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# Top Ten Risks

## Global Risks Landscape 2013, World Economic Forum



- Chronic fiscal imbalances
- Water supply crises
- Rising greenhouse gas emissions
- Severe income disparity
- Major systemic financial failure
- Failure of climate change adaptation
- Extreme volatility in energy and agriculture prices
- Food shortage crises
- Diffusion of weapons of mass destruction
- Global governance failure

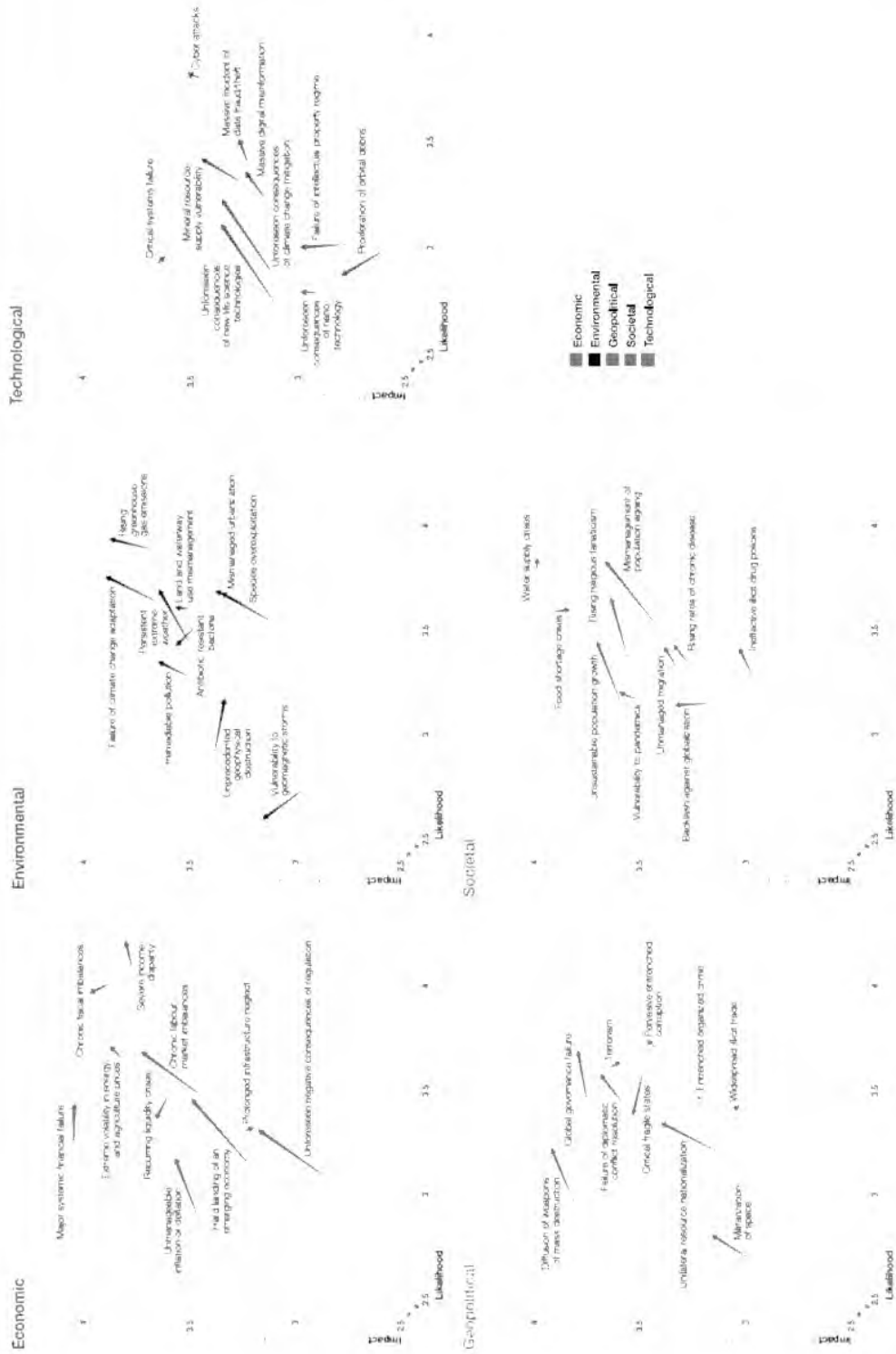
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# Five Global Risk Categories

## Global Risks Landscape 2013, World Economic Forum



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# Directory of Risks

<u>Category</u>	<u>Risk Category</u>	<u>Idx</u>	<u>Risk Subcategory</u>	<u>Risk Description</u>	<u>Index</u>	<u>Page</u>
1.0	Strategic	1	Partners Competitors Global	Licensing partners Competitive pressure Pandemic	1.1.1 1.2.1 1.3.1	8 10 12
2.0	Financial	1	Internal	Cash in bank accounts Short-term investments Defined Benefits Pension Investments Defined Contributions Pension Investments Financing / credit availability Internal control / cash fraud	2.1.1 2.1.2 2.1.3 2.1.4 2.1.5 2.1.6	13 16 20 22 24 29
		2	Market	Economic performance Inflation The Affordable Care Act	2.2.1 2.2.2 2.2.3	30 33 35
		3	Commodities	Foreign exchange Energy	2.3.1 2.3.2	38 42
		4	Insurance	Insurers' financial stability Property insurance Product liability insurance Product Recall Shipping / distribution	2.4.1 2.4.2 2.4.3 2.4.4 2.4.5	45 48 50 51 52
3.0	Operational	1	Value-Chain	Customers - credit risk Vendors - financial risk Supply Chain - continuity Third-Party partner financial obligations PBM fraud / GPO fraud	3.1.1 3.1.2 3.1.3 3.1.4 3.1.5	53 55 56 57 58
		2	Information Technology	Cybersecurity Disaster recovery / Backup systems	3.2.1 3.2.2	59 60

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1.1.1 ♦ Strategic ♦ Partners

# Licensing/Business Development Partners

Risk Owner	Licensing and Business Development
Elements of Risk	<ul style="list-style-type: none"><li>• Partner's capabilities and abilities to execute its business plan and contractual commitments.</li><li>• Partner's financial creditworthiness staying as an ongoing business entity.</li><li>• Partner's legal/financial obligations and liability with other third parties.</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Operational and capability due diligence on partner.</li><li>• Financial due diligence on partner.</li><li>• Legal review and due diligence on key contracts with third parties.</li><li>• Review S&amp;P rating and D&amp;B reports, if available.</li><li>• In key alliances, Purdue representative attends partner's Board meeting.</li><li>• In key partnerships, Purdue participates at key steering committees with partner.</li><li>• In partnerships with significant investments by Purdue, Purdue has final decision-making power in steering committees.</li></ul>
Further Actions	None
Reporting Procedures	<ul style="list-style-type: none"><li>• Due diligence report prior to formation of partnership.</li><li>• Ongoing Board meeting reports, committee meeting minutes, and financial reports.</li><li>• Business update reports were issued on partners in which Purdue has significant equity investments, e.g. Infinity, Optherion, etc.</li></ul>

1.1.1 ♦ Strategic ♦ Partners

# Licensing/Business Development Partners

(Cont.)

- Transcept
- Shionogi
- Grunenthal
- Abbott / AbbVie
- Koltan
- Novelos
- Optherion
- Newron
- LTS
- PRA
- Quintiles / Innovex
- ElMindA
- IBM
- BD Rx (potential)
- Creative Science (potential)

1.2.1 Strategic Competitors

# Competitive Pressure

Risk Owner	Purdue Corporate
Elements of Risk	<ul style="list-style-type: none"><li>• Key competitive entrants to the marketplace can significantly impact the value of Purdue's marketed products and pipeline development projects.</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Marketing (and Credit) issues daily newsflash recapping developments in pain management, pain research, Purdue competitors, and related therapeutic areas such as opioid induced constipation (OIC), insomnia, depression, and FDA regulations, etc.</li><li>• As part of the 10-year planning process, the pipeline projects are recertified annually to ensure their attractiveness from return on investments. The recertification process includes Marketing's review of competitive landscape and the payors' environment.</li><li>• Purdue staff regularly attend industry pain conferences such as American Pain Society.</li><li>• Licensing and Business Development staff regularly attend partnership conferences in which new technology and product development are presented.</li><li>• Corporate objectives: portfolio diversification, patents portfolio, focus on key competencies, in-licensing opportunities, and M&amp;A opportunities.</li></ul>
Further Actions	None
Reporting Procedures	<ul style="list-style-type: none"><li>• Routine newsflash from Marketing and Credit.</li><li>• Headline alerts from Credit.</li><li>• Purdue's 10-Year Plan and Recertification Report (published annually).</li><li>• Trip reports from Purdue staff from key conferences and business development meetings.</li></ul>

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1.2.1 ♦ Strategic ♦ Competitors

## Competitive Pressure

(Cont.)

- |                          |                     |
|--------------------------|---------------------|
| ■ Pfizer (King/Alpharma) | ■ Pain Therapeutics |
| ■ Abbott                 | ■ Collegium Pharma  |
| ■ Teva (Cephalon)        | ■ Nektar (OIC)      |
| ■ Acura                  | ■ AstraZeneca (OIC) |
| ■ Durect                 | ■ Theravance (OIC)  |
| ■ Endo                   | ■ Progenics (OIC)   |
| ■ Covidien               |                     |
| ■ BDISI                  |                     |

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Risk Owner	Employee Health and Safety (EHS)
Elements of Risk	<ul style="list-style-type: none"><li>• H5N1</li><li>• Coronavirus</li><li>• New threats?</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Pandemic kits available to employees, when necessary</li><li>• Site-specific cross training and critical path plans in place</li><li>• Employees have capabilities to work in virtual offices (i.e. home)</li><li>• Business Continuity and Pandemic Planning intranet site established and contains plan and implementation documents, key contacts, etc.</li><li>• Periodic Business Continuity and Pandemic Planning team meetings are initiated when specific threats are triggered.</li></ul>
Further Actions	None
Reporting Procedures	None

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2.1.1.1 ♦ Financial ♦ Internal

## Cash in Bank Accounts

Risk Owner	Treasurer
Elements of Risk	<ul style="list-style-type: none"><li>• Bank creditworthiness</li><li>• Preservation of principal</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Limit balances in bank accounts in US banks to \$250,000 (current limit of FDIC insurance)</li><li>• Hold cash balances in depository banks with S&amp;P ratings of A or above</li><li>• Monitor credit ratings of major domestic and international banks</li><li>• Monitor CDS of depository banks</li><li>• Invest excess cash in short-term U.S. Treasury bills or Agencies or mutual funds which invest in short-term U.S. Treasury bills and Agencies (U.S. Treasury bills and Agencies are backed by the U.S. government)</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• Monitor levels of Federal Deposit Insurance Corporation (FDIC) insurance coverage for US bank accounts</li></ul>
Reporting Procedures	<ul style="list-style-type: none"><li>• Risk review is performed annually</li><li>• Bank credit rating report is published annually, or on as needed basis</li></ul>

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2.1.1 ♦ Financial ♦ Internal

## Cash in Bank Accounts

(Cont.)

- All 57 bank accounts are with JP Morgan Chase.
- JP Morgan Chase has a S&P rating of A.
- Out of the top 30 worldwide banks, JP Morgan Chase has the 4<sup>th</sup> lowest CDS rates. Lower rates generally indicate lower default risks.
- As of 6/30/13, total cash balances of \$8.2 million are in these bank accounts.

These cash generated earning credits which offset cash management fees.

Cash deposited at DDA accounts is covered by \$250,000 FDIC protection.



## 2.1.1.1 Financial + Internal Cash in Bank Accounts

(Cont.)

### Summary of Credit Ratings on Major Banks, January 2013

Published within Last 3 Months

Tier	Bank Group	Country of Parent	Long-Term Credit Rating			Experimental Scoring			Jan-12 Average	Jan-12 Average	Δ from Previous
			Moody's	S&P	Fitch	Moody's	S&P	Fitch			
1 Strong	Basler Kantonalbank	Switzerland	n/a	AA+	n/a	n/a	7.0	5.0	7.0	7.0	-
	United Overseas Bank	Singapore	A1	AA-	AA-	7.0	5.0	5.0	5.7	5.7	-
	Royal Bank of Canada	Canada	Aa3	AA-	AA	5.0	5.0	6.0	6.0	6.0	↓
	Bank of Nova Scotia	Canada	Aa2	A+	AA-	6.0	4.0	5.0	5.7	5.7	↓
	ANZ National Bank	Australia	Aa3	AA-	AA-	5.0	5.0	5.0	5.5	5.5	↓
	Nordea Bank AB	Sweden	Aa3	AA-	AA-	5.0	5.0	5.0	5.0	5.3	-
	Svenska Handelsbanken	Sweden	Aa3	AA-	AA-	5.0	5.0	5.0	5.0	5.0	-
2 Fair	HSBC (Ind Bank of Bermuda) *	UK	Aa3	A+	AA-	5.0	4.0	5.0	5.3	5.3	↓
	J.P. Morgan Chase & Co.	U.S.A.	Aa3	A+	AA-	5.0	4.0	5.0	5.0	5.3	↓
	Credit Mutuel CIC (Ind Bnq Lux)	France	Aa3	A+	A+	5.0	4.0	4.0	4.3	4.0	-
	Landesbank Baden-Württemberg	Germany	A3	AA+	A+	2.0	7.0	4.0	4.3	4.0	↑
	Standard Chartered	UK	A2	A+	AA-	3.0	4.0	5.0	4.0	4.0	-
	Skandinaviska Enskilda Banken	Sweden	A1	A+	A+	4.0	4.0	4.0	4.0	4.0	-
	ING Bank	Netherlands	A2	A+	A+	3.0	4.0	4.0	4.3	3.3	↓
3 Weak	Bank of Tokyo-Mitsubishi UFJ	Japan	Aa3	A+	A-	5.0	4.0	2.0	4.0	4.0	↓
	Credit Suisse	Switzerland	A1	A+	A	4.0	4.0	3.0	3.7	4.7	-
	Mizuho Bank	Japan	A1	A+	A-	4.0	4.0	2.0	3.3	4.0	↑
	Societe Generale	France	A2	A	A+	3.0	3.0	4.0	3.7	4.0	↓
	Bank of China	China	A1	A	A	4.0	3.0	3.0	3.3	3.3	-
	Commerzbank AG	Germany	A3	A	A+	2.0	3.0	4.0	3.3	3.3	↓
	Lloyds TSB	UK	A2	A	A	3.0	3.0	3.0	3.3	3.3	↓
4 Avoid (except for local current business needs)	Woori Bank	Korea	A1	A-	A-	4.0	2.0	2.0	2.7	2.7	↑
	Erste Group Bank AG	Austria	A3	A	A	2.0	3.0	3.0	2.7	2.7	-
	ABN Amro Bank	Netherlands	A3	A	A	2.0	3.0	3.0	2.7	2.7	↑
	Bank of America	U.S.A.	A3	A-	A+	2.0	2.0	4.0	2.7	2.5	-
	Royal Bank of Scotland	UK	A3	A-	A	2.0	2.0	3.0	2.7	2.7	↓
	Bank of N.T. Butterfield	Bermuda	A2	A-	A-	3.0	2.0	2.0	2.3	2.3	-
	KBC Bank NV	Belgium	A3	A-	A-	2.0	2.0	2.0	2.3	2.3	↑
4 Avoid (except for local current business needs)	Banca Intesa San Paolo	Italy	Baa2	BBB+	A-	0.5	1.5	2.0	1.8	1.8	↓
	Unicredit (Bank of Austria/Pekao)	Italy	Baa2	BBB+	A-	0.5	1.5	2.0	3.0	2.7	↓
	Abisa Bank	South Africa	Baa1	BBB	BBB	1.0	1.0	1.0	1.7	1.7	↓
	Sydbank	Denmark	Baa1	n/a	n/a	1.0	1.0	1.0	1.0	3.0	-
	China Merchants Bank	China	Baa3	BBB+	BBB	0.3	1.5	1.0	0.9	0.9	↑
	Allied Irish Bank	Ireland	BBB	BB	BBB	0.2	0.0	1.0	0.4	0.4	↑
	Banco Sabadell, S.A.	Spain	Ba1	BB	BB+	0.0	0.0	0.5	1.3	1.3	↓
	Greece banks	Greece									
	Portugal banks	Portugal									
	Cyprus banks	Cyprus									
	Ireland banks	Ireland									
	Spain banks	Spain									
	Italy banks	Italy									

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2.1.2 ♦ Financial ♦ Internal

# Short-Term Investments

Risk Owner	Treasurer
Elements of Risk	<ul style="list-style-type: none"><li>• Credit</li><li>• Interest rate</li><li>• Custody</li><li>• Regulatory (e.g. new money market fund rules from SEC)</li><li>• All short-term investments are in US Government/Agency securities or Money Market Funds that hold only these types of securities.</li><li>• All short-term investments have maturities less than 6 months.</li><li>• Short-term investment securities and shares in money market funds are held in accounts in the name of the specific Purdue entity.</li><li>• Unlike a bank depository account, these assets are not commingled with the banks' assets.</li><li>• The custodian banks who hold the government securities and money market funds are considered stable and are rated by S&amp;P at [A-] or above.</li><li>• To optimize interest income under current market condition, target allocation is 75% T-bills and 25% money market funds. Allocation is fine-tuned depending on market conditions.</li></ul>
Existing Risk Management Controls	
Further Actions	none
Reporting Procedures	<ul style="list-style-type: none"><li>• Short-term investments report is issued daily to Treasurer.</li><li>• Weekly cash forecast is performed to optimize interest income per the short-term investment policy.</li><li>• Risk review is performed annually.</li></ul>

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## 2.1.1.2 ♦ Financial ♦ Internal Short-Term Investments (Cont.)

### Investments – Short-term: By Type

(\$MM)	12/31/2007		12/31/2008		12/31/2009		12/31/2010		12/31/2011		12/31/2012		6/30/2013	
Short Term Investments:	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total
Treasury Securities	-	0%	48	9%	207	39%	466	79%	494	72%	786	93%	890	92%
Government Sponsored Entities (GSEs)	-	0%	428	79%	257	50%	65	11%	144	21%	22	3%	38	4%
Commercial Paper, CDs, etc.	457	88%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
OSRLP Security Deposits w/BOA	11	2%	11	2%	-	0%	-	0%	-	0%	-	0%	-	0%
Qualified Settlement Trust (US Gov.)	53	10%	54	10%	54	10%	53	9%	43	6%	24	3%	24	3%
<b>Total</b>	<b>\$521</b>	<b>100%</b>	<b>\$541</b>	<b>100%</b>	<b>\$518</b>	<b>100%</b>	<b>584</b>	<b>100%</b>	<b>662</b>	<b>100%</b>	<b>832</b>	<b>100%</b>	<b>952</b>	<b>100%</b>
<b>Portfolio Yield</b>		<b>4.8%</b>		<b>1.700%</b>		<b>0.400%</b>		<b>0.091%</b>		<b>0.010%</b>		<b>0.072%</b>		<b>0.039%</b>

- At year-end 2007 short-term investments consisted of high quality commercial paper and CDs.
- As the credit crisis grew in early 2008, investments were shifted to Treasuries and GSEs to reduce risk.
- In 2009, spreads between Treasuries and Agencies narrowed. As a result, investment allocation shifted towards Treasuries. This continues to be the trend.
- During the latter part of 2011, treasury bill and agency yields were zero to negative while money market funds with the same securities were yielding 0.01%.
- As Europe's debt crisis subsided in mid-2012, U.S. Treasury yields had improved slightly.
- Starting in 2013-Q3, amid Fed's talk of tapering their quantitative easing program, the long-term yields have spiked up nearly 1%. However, short-term yields have not risen with the same magnitude.

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2.1.1.2 ♦ Financial ♦ Internal  
**Short-Term Investments**  
(Cont.)

**Investments – Short-term: By Custodian**

(SMM)	12/31/2007		12/31/2008		12/31/2009		12/31/2010		12/31/2011		12/31/2012		6/30/2013	
	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total
<b>Custodian/Trusts:</b>														
Bank of America - (securities held in name of Purdue entity)	\$97	19%	\$102	19%	\$67	13%	\$96	16%	\$0	0%	\$292	35%	\$417	44%
Dreyfus MMF - (shares held in name of Purdue entity)	94	18%	19	4%	-	0%	-	0%	-	0%	-	0%	-	0%
Federated MMF - (shares held in name of Purdue entity)	1	0%	171	32%	160	31%	65	11%	144	21%	1	0%	1	0%
Goldman Sachs MMF - (shares held in name of Purdue entity)	65	12%	115	21%	98	19%	60	10%	210	31%	21	3%	37	4%
Western Assets MMF - (shares held in name of Purdue entity)	0	0%	0	0%	0	0%	0	0%	284	42%	144	17%	148	16%
JPMorgan - (securities held in the name of Purdue entity)	-	0%	80	15%	140	27%	310	53%	0	0%	350	42%	325	34%
Merrill Lynch - (securities held in the name of Purdue entity)	60	12%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
UBS - (shares held in the name of Purdue entity)	151	29%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
Smith Barney/Citigroup (QST)	53	10%	54	10%	53	10%	53	9%	43	6%	24	3%	24	3%
<b>Total</b>	<b>\$521</b>	<b>100%</b>	<b>\$541</b>	<b>100%</b>	<b>\$518</b>	<b>100%</b>	<b>\$584</b>	<b>100%</b>	<b>\$682</b>	<b>100%</b>	<b>\$832</b>	<b>100%</b>	<b>\$952</b>	<b>100%</b>

- During 2008, short-term investments were moved away from Merrill Lynch and UBS to more financially stable broker/dealers. JP Morgan was added.
- Western Assets runs one of the larger, higher yielding treasury money market funds.

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2.1.1.2 ♦ Financial ♦ Internal

# Short-Term Investments

(Cont.)

Proposed SEC rule details: contains two potential operational rules – can be implemented separately or together

- **Floating rate NAV**

Daily share prices would fluctuate to the nearest basis point (0.01%)

Fluctuation would be based on the performance of the underlying holdings, just like any other fund

- **Withdrawal restriction options when a fund crosses a liquidity threshold (15% weekly liquidity)**

Impose redemption “gates” (not permit withdrawals) for up to 30 days

Allow fund to charge up to 2% (as set by the fund’s board) on all withdrawals

Require notification and disclosure of liquidity trigger and actions

Government funds exempted in proposed rule, but can opt-in

- **Other rules – report fund holdings, strengthen diversification, enhance stress testing**

- **Next Steps**

The rule is not yet effective (i.e. not approved nor implemented.)

90-day comment period (ending in September 2013)

Rule revision by SEC

SEC vote; if approved, final regulations released with an effective date TBD



2.1.1.3 Financial Internal

# Defined Benefits Pension Investments

Risk Owner	Pension Investment Committee
Elements of Risk	<ul style="list-style-type: none"><li>• Funding target: meet liability projection</li><li>• Performance of investments</li><li>• Fiduciary responsibilities</li><li>• Regulatory (e.g. ERISA and DOL) compliance</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• With contribution and return, Purdue targets to reach <math>\geq 95\%</math> ERISA funding target.</li><li>• Assume a realistic long-term investment return expectation @ 7% p.a.</li><li>• Routine performance monitoring and benchmarking of investments.</li><li>• Utilize indexing for asset classes where active management yields little value.</li><li>• Schedule of review meetings with SEI – investment manager, along with actuary.</li><li>• SEI as Purdue's co-fiduciary – asset liability study and asset allocation modeling.</li><li>• Hired an 3<sup>rd</sup>-party consultant to critique Purdue's pension management process.</li><li>• Provide annual training for the Pension Investment Committee</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• Consider utilizing 3<sup>rd</sup>-party consultant in a review process once every 3-5 years</li></ul>
Reporting Procedures	<ul style="list-style-type: none"><li>• Quarterly pension plan performance report</li><li>• SEI presentation to pension investment committee</li><li>• Routine pension investment committee meeting minutes</li><li>• Pension actuary reports</li><li>• 3<sup>rd</sup>-party consultant report</li></ul>

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TREAT SUBJECT TO PROTECTIVE ORDER

# Defined Benefits Pension Investments

2.1.3 Financial + Internal

(Cont.)

Total Portfolio (\$MMs)	12/31/2007	% of total	12/31/2008	% of total	12/31/2009	% of total	12/31/2010	% of total	12/31/2011	% of total	12/31/2012	% of total	6/30/2013	% of total
Small/Mid Cap Equity	9.4		7.3		-		6.7		6.3		8.9		10.9	
Disciplined Equity	36.2		27.5		-		-		-		-		-	
Large Cap Index	-		-		59.3		52.9		52.8		74.9		76.8	
Total U.S. Equity	45.6		34.8		59.3		59.6		59.1		83.8		87.7	
Emerging Markets Equity Index	1.4		1.0		1.9		-		8.0		10.0		12.2	
International Developed Equity	13.4		9.8		15.9		-		-		-		-	
International Developed Index	-		-		-		28.7		19.7		30.4		35.2	
Total International Equity	14.8		10.8		17.8		28.7		27.8		40.4		47.4	
<b>Total Equity</b>	<b>60.4</b>	<b>40%</b>	<b>45.5</b>	<b>38%</b>	<b>77.2</b>	<b>45%</b>	<b>88.3</b>	<b>44%</b>	<b>86.9</b>	<b>43%</b>	<b>124.2</b>	<b>52%</b>	<b>135.1</b>	<b>55%</b>
Emerging Markets Debt	7.6		6.4		8.9		8.3		8.3		9.1		11.1	
High Yield Bond	7.4		5.6		9.1		17.0		14.7		18.0		16.5	
Core Fixed/Ext. Dur./Treasury	51.9		41.3		55.7		64.2		72.1		87.1		75.1	
Opportunistic Income	-		-		-		-		-		-		9.6	
<b>Total Fixed Income</b>	<b>66.9</b>	<b>44%</b>	<b>53.2</b>	<b>45%</b>	<b>73.7</b>	<b>41%</b>	<b>89.5</b>	<b>45%</b>	<b>95.1</b>	<b>47%</b>	<b>114.2</b>	<b>41%</b>	<b>112.3</b>	<b>45%</b>
<b>Hedge Fund-of-Funds</b>	<b>24.6</b>	<b>16%</b>	<b>19.9</b>	<b>17%</b>	<b>20.5</b>	<b>12%</b>	<b>20.8</b>	<b>10%</b>	<b>19.6</b>	<b>10%</b>	-	<b>0%</b>	-	<b>0%</b>
Accrued Income	0.3		0.1		0.3		0.3		0.3		-		-	
<b>Total Portfolio (PPLP &amp; PFL)</b>	<b>152.2</b>	<b>100%</b>	<b>118.8</b>	<b>100%</b>	<b>171.7</b>	<b>100%</b>	<b>198.9</b>	<b>100%</b>	<b>202.0</b>	<b>100%</b>	<b>238.4</b>	<b>100%</b>	<b>247.4</b>	<b>100%</b>

- The plans are managed by SEI which acts as a manager of individual fund managers. The target asset allocation for the PPLP plan is Equity – 56%; Fixed Income – 44%. The target asset allocation for the PFL plan is Equity – 0%; Fixed Income – 100%.
- In September 2011, per asset-allocation study and performance review of the SEI Hedge Fund, Purdue Investment Committee implemented the recommendation of exiting the SEI Hedge Fund and investing its assets in existing equities and fixed income funds.
- About 50% of the PPLP plan assets are indexed.
- In late 2011, Purdue Investment Committee implemented the recommendation to employ liability-driven investing (LDI) for the PFL plan, which will help to minimize volatility of its ERISA funding ratio.
- In 2013 June year-to-date, Purdue had contributed \$5.8 million to the pension plans. 2013 full-year budget of cash funding is \$10.7 million.
- Under the ERISA (employee retirement income security act), the pension plans are funded approximately in the 95% range (APTAP).
- 2013 June month-end, PPLP portfolio's 1-year return was 11.5%. In beginning of 2013, Plans assumed a 7% return for full-year 2013.

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2.1.4 ♦ Financial ♦ Internal

# Defined Contribution (401k) Investments

Risk Owner	Pension Investment Committee
Elements of Risk	<ul style="list-style-type: none"><li>• Costs of plan operation and investments are competitive</li><li>• Appropriate selection of investment options for employees</li><li>• Fiduciary responsibilities</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Routine performance monitoring and benchmarking of investments</li><li>• Periodic deep-dive review of funds in the watch list</li><li>• Benchmarking costs of plan operation and investments</li><li>• Schedule of review meeting with Fidelity Investments</li><li>• SEI serves as an independent consultant providing routine (once-a-year) review of 401(k) plan performance</li><li>• Fidelity Investments issues communications to employees on key developments</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• None</li></ul>
Reporting Procedures	<ul style="list-style-type: none"><li>• Quarterly 401(k) plan performance report</li><li>• Fidelity Investments reports to Pension Investment Committee</li><li>• SEI presentation on 401(k) plan review to pension investment committee</li><li>• Periodic deep-drive review of funds</li><li>• Routine pension investment committee meeting minutes</li></ul>

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2.1.4 Financial Internal  
**Defined Contribution (401k) Investments**  
(Cont.)

List	Fund Name	Morningstar Category	Balances (\$MMs)		Fund Performance						MS Rating		Change B/(W)	YTD % Rank in Category Lower Better Upper Worse	
			P/LP	% of Total	6/30/2023 YTD	Annualized Return				10-Year	MS Rating				
						1-Year	3-Year	5-Year	Current		Prior				
U.S. Equities															
			\$ 148.83	43.3%											
21	Fidelity Spartan 500 Index Inv	US OE Large Blend	\$ 24.58	7.1%	13.8%	20.5%	18.4%	7.0%	7.2%	★★★★	★★★★			43%	
4	Fidelity Contrafund K	US OE Large Growth	\$ 46.83	13.6%	11.5%	16.9%	16.8%	6.1%	10.0%	★★★★	★★★★	(1)		40%	
25	Dodge & Cox Stock	US OE Large Value	\$ 30.28	8.8%	17.6%	30.6%	19.2%	6.7%	8.0%	★★★★	★★★★			9%	
31	AllianzGI NFI Dividend Value Instl	US OE Large Value	\$ 3.57	1.0%	13.4%	22.3%	18.1%	4.2%	8.1%	★★★★	★★★★			75%	
26	Vanguard Extended Market Idx Signal	US OE Mid-Cap Blend	\$ 5.99	1.7%	15.7%	26.0%	19.7%	9.0%	10.5%	★★★★	★★★★			34%	
28	Neuberger Berman Genesis Instl	US OE Mid-Cap Growth	\$ 32.27	9.4%	13.0%	20.1%	17.5%	5.4%	11.5%	★★★★	★★★★			48%	
24	Managers Cadence Emerging Companies I	US OE Small Growth	\$ 1.70	0.5%	17.9%	26.7%	25.9%	11.1%	9.2%	★★★★	★★★★			29%	
33	Northern Small Cap Value	US OE Small Value	\$ 3.61	1.0%	15.1%	24.0%	18.4%	9.3%	10.3%	★★★★	★★★★			60%	
Foreign Equities															
			\$ 26.09	7.6%											
27	Vanguard Total Intl Stock Index Inv	US OE Foreign Large Blend	\$ 3.71	1.1%	-0.5%	13.5%	8.2%	-0.9%	8.3%	★★★★	★★★★	(1)		89%	
7	Fidelity Diversified International K	US OE Foreign Large Blend	\$ 20.60	6.0%	5.0%	18.5%	11.1%	-0.9%	8.1%	★★★★	★★★★	(1)		13%	
34	Oppenheimer Developing Markets V	US OE Diversified Emerging Mkt	\$ 1.78	0.5%	-3.8%	7.9%	8.1%	5.5%	18.1%	★★★★	★★★★			19%	
Fixed Income															
			\$ 73.86	21.5%											
36	Vanguard Prime Money Market Instl	US Money Market Taxable	\$ 33.21	9.7%	0.0%	0.1%	0.1%	0.5%	1.9%						
20	Fidelity Managed Income	US Money Market Taxable	\$ 14.96	4.4%	0.6%	1.1%	1.3%	1.5%	2.8%						
22	Fidelity Spartan US Bond Idx Investor	US OE Intermediate-Term Bond	\$ 12.24	3.6%	-2.6%	-1.0%	3.3%	4.9%	4.2%	★★★★	★★★★			58%	
23	PIMCO Total Return Instl	US OE Intermediate-Term Bond	\$ 11.85	3.4%	-3.0%	1.2%	4.7%	7.3%	6.0%	★★★★	★★★★			81%	
37	Fidelity High Income	US OE High Yield Bond	\$ 1.59	0.5%	0.8%	8.2%	9.7%	9.4%	8.2%	★★★★	★★★★			64%	
Asset Allocation															
			\$ 24.38	7.1%											
2	Fidelity Puritan K	US OE Moderate Allocation	\$ 15.24	4.4%	6.5%	12.2%	12.6%	6.4%	7.0%	★★★★	★★★★			43%	
6	Fidelity Asset Manager 50%	US OE Moderate Allocation	\$ 9.14	2.7%	3.9%	9.4%	9.9%	5.8%	5.3%	★★★★	★★★★			79%	
Freedom Fund Family															
			\$ 70.82	20.6%											
8	Fidelity Freedom Income	US OE Retirement Income	\$ 1.22	0.4%	0.5%	3.5%	5.2%	4.0%	4.0%	★★★★	★★★★	+1		64%	
9	Fidelity Freedom 2000	US OE Target Date 2000-2010	\$ 0.51	0.1%	0.5%	3.5%	5.3%	3.8%	4.1%	★★★★	★★★★			79%	
10	Fidelity Freedom 2010	US OE Target Date 2000-2010	\$ 3.10	0.9%	2.8%	7.9%	8.9%	4.4%	5.5%	★★★★	★★★★			35%	
11	Fidelity Freedom 2015	US OE Target Date 2011-2015	\$ 6.61	1.9%	2.9%	8.2%	9.1%	4.2%		★★★★	★★★★			32%	
12	Fidelity Freedom 2020	US OE Target Date 2016-2020	\$ 12.10	3.5%	3.4%	9.2%	10.1%	3.9%	6.1%	★★★★	★★★★			49%	
13	Fidelity Freedom 2025	US OE Target Date 2021-2025	\$ 10.26	3.0%	4.6%	11.3%	11.2%	4.1%		★★★★	★★★★			58%	
14	Fidelity Freedom 2030	US OE Target Date 2026-2030	\$ 14.02	4.1%	5.1%	12.0%	11.6%	3.5%	6.3%	★★★★	★★★★			55%	
15	Fidelity Freedom 2035	US OE Target Date 2031-2035	\$ 9.70	2.8%	6.2%	13.7%	12.2%	3.6%		★★★★	★★★★	(1)		73%	
16	Fidelity Freedom 2040	US OE Target Date 2036-2040	\$ 8.12	2.4%	6.3%	13.9%	12.4%	3.4%	6.5%	★★★★	★★★★			61%	
17	Fidelity Freedom 2045	US OE Target Date 2041-2045	\$ 3.79	1.1%	6.6%	14.5%	12.6%	3.5%		★★★★	★★★★			66%	
18	Fidelity Freedom 2050	US OE Target Date 2046-2050	\$ 1.28	0.4%	6.7%	14.6%	12.8%	3.1%		★★★★	★★★★			68%	
35	Fidelity Freedom 2055	US OE Target Date 2051+	\$ 0.12	0.0%	7.0%	15.2%				★★	★★			77%	

Frozen fund

Total Balances: \$ 343.98 100.0%  
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TREAT SUBJECT TO PROTECTIVE ORDER

# 2.1.5 Financial Internal Financing / Credit Availability

Risk Owner	Chief Financial Officer / Treasurer
Elements of Risk	<ul style="list-style-type: none"><li>• Secure credit capacity for varying needs of working capital</li><li>• Secure credit capacity for letters of credit, e.g. insurance, clinical trials, etc.</li><li>• Prepare credit availability, monitor cost of borrowing, and maintain relationship with lenders; when appropriate, provide financing options to the Board in the event cash is needed for licensing or acquisition opportunities.</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Forecast working capital needs – long-term, medium-term, and short-term cash flows forecasts.</li><li>• Benchmark working capital performance</li><li>• In Oct 2012, extended Purdue's \$45mm line of credit (cash-collateralized in Treasuries) with Bank of America for 3 years, while locked in investment-grade pricing. Next renewal time is October 2015.</li><li>• Ongoing monitoring of credit markets, e.g. Loan Pricing Conference, Reuters' Gold Sheet, AFP website, and industry surveys.</li><li>• Annual business update meetings with two relationship banks: Bank of America and JP Morgan Chase.</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• None</li></ul>
Reporting Procedures	<ul style="list-style-type: none"><li>• Publish long-term, medium-term, and short-term cash flows forecasts.</li><li>• Provide credit markets snapshot, once-a-year or as needed basis.</li><li>• Ongoing monitor of utilization levels of line of credit.</li><li>• Prepare business update presentation and provide meeting minutes on business update meetings with banks.</li></ul>

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2.1.5 ♦ Financial ♦ Internal

# Financing / Credit Availability

(Cont.)

## For Creditworthiness Profile: Between BBB- and BB

Multi-Year Bank Loans	BBB-	BB	Average of Two
-----------------------	------	----	----------------

Upfront Fee	n/a	50-75 bps	50-75 bps
Undrawn Pricing (average)	25 bps	50 bps	38 bps
Drawn Pricing (average)	LIBOR + 156 bps	LIBOR + 258 bps	LIBOR + 207 bps

364 DAY

Pricing Grid - 364-day Underlying Deals

	Avg	Min	Max	Undrawn	Drawn	Avg	Min	Max	Undrawn	Drawn
AA	5.75	4.00	7.50	78.27	78.27	78.27	78.27	78.27	78.27	78.27
A	6.50	5.00	8.00	84.83	84.83	84.83	84.83	84.83	84.83	84.83
BBB	10.00	10.00	10.00	120.83	120.83	120.83	120.83	120.83	120.83	120.83

Pricing Grid - Multi-year Underlying Deals

	Avg	Min	Max	Undrawn	Drawn	Avg	Min	Max	Undrawn	Drawn
AA	7.50	6.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
A	8.83	7.25	10.50	91.07	91.07	91.07	91.07	91.07	91.07	91.07
BBB	19.00	13.00	16.00	140.00	140.00	140.00	140.00	140.00	140.00	140.00

Pricing Grid - Pro Rata Underlying Deals

	Avg	Min	Max	Undrawn	Drawn	Avg	Min	Max	Undrawn	Drawn
AA	46.67	25.13	75.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00
A	50.00	30.00	75.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
BBB	46.67	25.13	75.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00

Pricing Grid - Term Loan B Underlying Deals

	Avg	Min	Max	Undrawn	Drawn	Avg	Min	Max	Undrawn	Drawn
AA	18.12	12.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
A	17.50	11.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50
BBB	24.00	22.50	30.00	24.00	24.00	24.00	24.00	24.00	24.00	24.00

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# 2.1.5 Financial + Internal

## Financing / Credit Availability

Outstanding Letters of Credit, 6/30/2013

6/30/2013

BANK OF AMERICA - LETTERS OF CREDIT

PURDUE PHARMA L.P.

B of A		Chase	Beneficiary	Note	Type	Value	Expiry	Final	Amount	Notification	Non-renewal
Number	Number					Date	Date	Expiration		Period	Notification
68005629	T239039	Liberty Mutual Insurance Company	(1)	Irrev Sby	3/30/2013	3/30/2014	Evergreen		1,170,000.00	60 days	1/29/2014
68005629	T617521	Liberty Mutual Insurance Company	(1)	Irrev Sby	3/30/2013	3/30/2014	Evergreen		490,000.00	60 days	1/29/2014
68005628	T343343	Liberty Mutual Insurance Company	(4)	Irrev Sby	3/30/2013	3/30/2014	Evergreen		10,000,000.00	60 days	1/29/2014
68046126	NA	Insurance Company Of The State Of PA	(5)	Irrev Sby	10/1/2013	10/1/2014	Evergreen		2,500,000.00	60 days	8/2/2014
Total									14,160,000.00		
Number	Beneficiary	Type	Value	Expiry	Final	Amount	Notification	Non-renewal			
			Date	Date	Expiration		Period	Notification			
68005652	T311930	Zurich American Insurance Company	(1)	Irrev Sby	3/31/2013	3/31/2014	Evergreen	3/1/2014			
68005641	T313430	Lumbermans Mutual Casualty Company	(1)	Irrev Sby	3/31/2013	3/31/2014	Evergreen	1/30/2014			
68005649	T360306	Royal Indemnity Company	(1)	Irrev Sby	3/31/2013	3/31/2014	Evergreen	1/30/2014			
Total						1,000,000.00					
THE PF LABORATORIES, INC. Account No. 128061662											
Number	Beneficiary	Type	Value	Expiry	Final	Amount	Notification	Non-renewal			
			Date	Date	Expiration		Period	Notification			
68044678	State of Wyoming	(2)	Annual	6/11/2013	6/30/2014	100,000.00	60	5/1/2014			
						100,000.00					
PURDUE PHARMACEUTICALS L.P. Account No. 020915993											
Number	Beneficiary	Type	Value	Expiry	Final	Amount	Notification	Non-renewal			
			Date	Date	Expiration		Period	Notification			
68044677	State of Wyoming	(2)	Annual	6/11/2013	6/30/2014	100,000.00	60	5/1/2014			
68034023	North Carolina Department of Environment and Natural Resources	(3)	Annual	4/30/2013	4/30/2014	121,200.00	60	3/1/2014			
						221,200.00					
Grand Total						15,481,200.00					

- (1) Security for incurred but not yet paid workers comp and auto liability claims
- (2) Required security to be a distributor in the state of WY
- (3) Required security to be posted for underground tank in NC
- (4) Collateral for \$10 million US products liability/insurance (fronted)
- (5) Collateral for \$10 million non-US products liability and clinical trials insurance (fronted)

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2.1.5 Financial + Internal

# Financing / Credit Availability

Cash Conversion Cycle (CCC)

## Cash Conversion Cycle

Data as of 12/31/2012

	Purdue	(Average) U.S. Pharma	(Average) S&P 500
Days Inventory Outstanding (DIO)	(c) 121.8	145.2	71.7
Days Sales Outstanding (DSO)	34.7	66.9	49.9
Days Payable Outstanding (DPO)	(a) 38.8	78.1	63.1
<b>Cash Conversion Cycle (CCC)</b>	<b>117.7</b>	<b>134.0</b>	<b>58.5</b>

## Other Working Capital Ratios

Current Ratio	1.4	2.9	2.0
Quick Ratio	1.0	2.3	1.3
Working Capital as % of Sales (peers @ median)	13%	36%	12%
Cash & Equivalents (unrestricted) @ Average Month's Sales	(b) 3.7	2.1	1.2

### Notes

U.S. Pharma is defined as:

1) Industry Classifications: Biotechnology (Primary) OR Pharmaceuticals (Primary)

2) Total Revenue [Latest 12-Month] (\$USDmm, Historical rate): is greater than \$500mm.

3) EBITDA [Latest 12-Month] (\$USDmm, Historical rate): is greater than \$0mm. (i.e. profitable)

4) Geographic Locations: United States of America (Primary)

Total 33 companies selected by Capital IQ in 2013 report.

For Purdue, DPO is published by Finance from internal reporting. DIO is calculated by standard formula. Purdue DSO is from internal financial reporting. Excluded rebates.

(a) Industry's DPO average is not comparable to Purdue because Purdue's cost of goods is de minimis comparing with others. Purdue number excluded rebates DPO.

(b) Purdue maintains cash at 3 months of net sales for working capital uses. Other companies might have short-term bank credit facilities for working capital uses; thus, they can maintain lower cash balances.

(c) Purdue's DIO on finished goods was 112 days.

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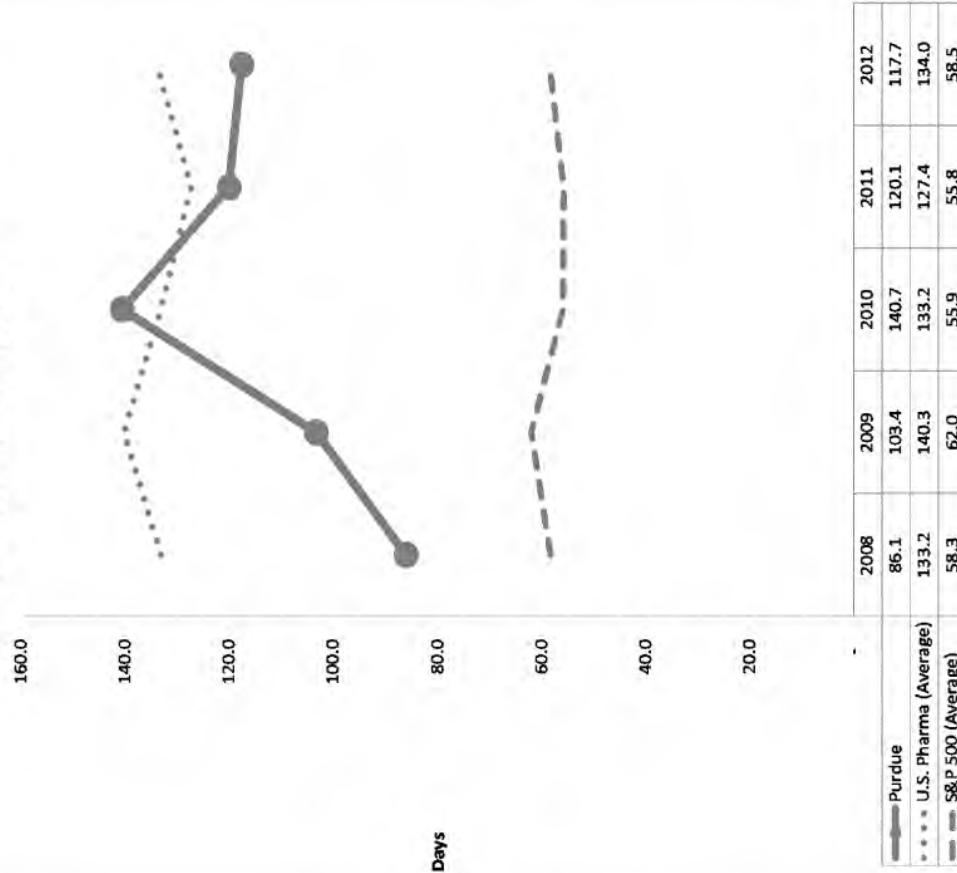
27

2.1.1.5 ♦ Financial ♦ Internal

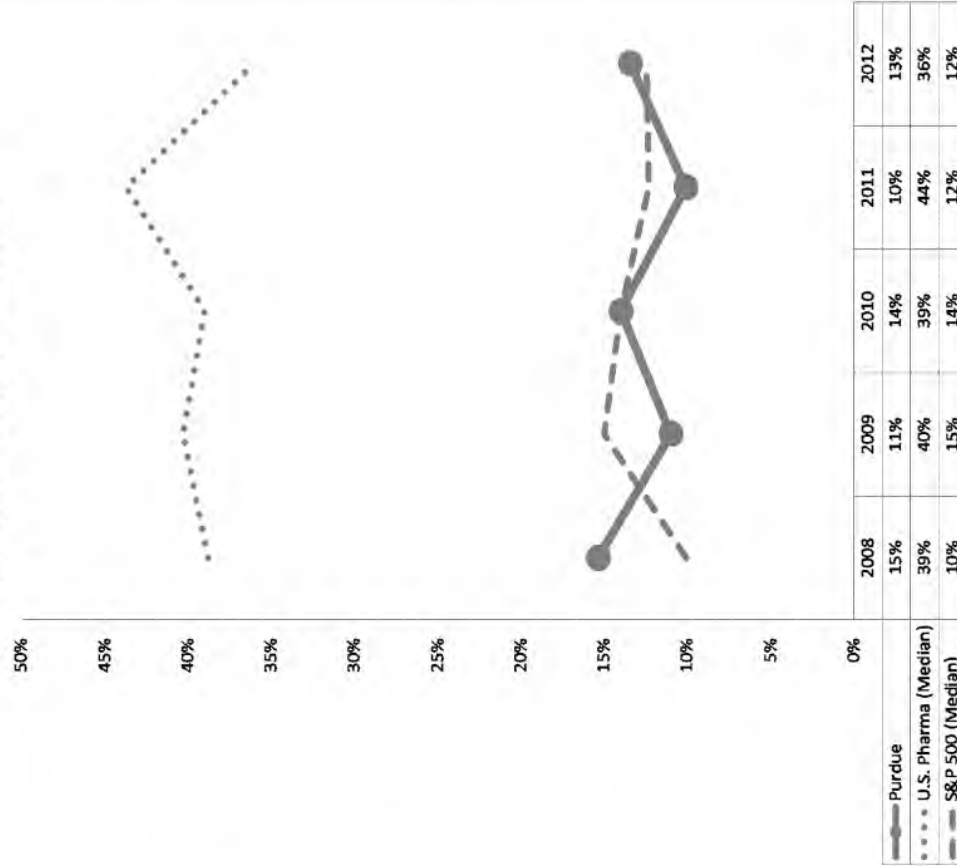
# Financing / Credit Availability

Cash Conversion Cycle ♦ Working Capital as % of Net Sales

Cash Conversion Cycle



Working Capital as % of Net Sales



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2.1.6 • Financial • Internal

## Internal Control / Cash Fraud

Risk Owner	Controller
Elements of Risk	<ul style="list-style-type: none"><li>• Fraudulent wires</li><li>• Fraudulent ACH debits</li><li>• Forged checks</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Positive pay ensures checks only clear for amount, check number and vendor of a check issued by Purdue; no check cashing capability at bank branches.</li><li>• Daily review of all wires hitting all our bank accounts (performed by Treasury)</li><li>• Monthly bank account reconciliation by Accounting</li><li>• Secured electronic payment approval process in SAP via biometric security with fingerprint authentication</li><li>• Separate approvers required for all third-party wire transfers in Treasury Workstation (total 2 people are required)</li><li>• Newly implemented PaySource process with integrated payable and payment processes, with enhanced controls to ensure proper payment approval and secure transmission of payment information to bank.</li><li>• Triennial review of list of authorized signers recorded at bank (performed by Treasury)</li><li>• \$15mm Crime insurance (worldwide)</li><li>• Segregation of duties between invoice processing, vendor master maintenance and payment processing.</li><li>• Monthly reviews of changes to vendor master, annual cleansing of vendor master, annual fraud audit and software to detect duplicate payments.</li><li>• ACH debit blocks to be implemented on all DDA bank accounts.</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• ACH debit blocks have been implemented on 33 DDA bank accounts.</li><li>• There are 23 DDA bank accounts left that need ACH debit blocks. Evaluation continues.</li></ul>
Reporting Procedures	Annual review

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2.2.1 Financial Market

## Economic Performance

Risk Owner	Chief Financial Officer
Elements of Risk	<ul style="list-style-type: none"><li>• General economic performance (whether favorable or unfavorable) affects pharmaceutical industry. (source: IMS)</li><li>• Economic performance impacts Purdue's operations such as distributors, business partners, customers, suppliers, credit providers, pension funding, etc.</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Using financial instruments to mitigate risk of economic performance is very costly.</li><li>• Pharmaceutical sales are generally believed less dependent on economic cycles than other cyclical industries while the magnitude of impacts, if any, are generally less severe. However, the recent economic recession is changing this generally assumption—in the last 24 months, there was a strong correlation between pharmaceutical sales and consumer confidence. However, the correlation has ended at the end of 2012 when consumer confidence remains high but medical utilization continues at depressed levels.</li><li>• Significant economic news, economic indicators, and public-domain economic projections are shared with key finance executives so financial assumptions can be fine-tuned if necessary.</li><li>• Closely monitor/manage working capital (accounts receivable and accounts payable)</li><li>• Quarterly reports of key economic and financial indicators are published. Data come from Federal Reserve, Capital IQ, and other sources.</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• None</li></ul>
Reporting Procedures	<ul style="list-style-type: none"><li>• Significant economic news, economic indicators, and public-domain economic projections are shared with key finance executives, as needed basis.</li><li>• Quarterly reports of key economic and financial indicators are published to the CFO.</li></ul>

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2.2.1 ♦ Financial ♦ Market

Microsoft Excel  
Worksheet

Economic Performance

(cont.)

2013-Q2 Economic Indicator Report is attached.

U.S. Treasury Yield Curve



Economic Indicator	2011 A	2012 A	2013 F	2014 F
Real GDP (YoY Δ %)	1.8%	2.8%	1.6%	2.8%
CPI (YoY Δ %)	3.2%	2.1%	1.5%	1.6%
Interest Rate	2011 A	2012 A	2013 F	2014 F
Fed Funds	0 - 0.25%	0 - 0.25%	0 - 0.25%	0 - 0.25%
3-Month T-Bill	0.01%	0.04%	0.02%	0.10%
3-Month LIBOR	0.58%	0.31%	0.25%	0.40%
2-Year T-Note	0.24%	0.25%	0.50%	1.25%
10-Year T-Note	1.88%	1.75%	3.00%	4.00%
30-Year T-Bond	2.90%	2.95%	3.85%	4.80%
Foreign Exchange	Sep-2013 F	Dec-2013 F	Jun-2014 F	Dec-2014 F
Euro-USD	1.30	1.25	1.23	1.22
USD-JPY	103	105	106	108
GBP-USD	1.55	1.51	1.52	1.53
USD-CAD	1.05	1.04	1.04	1.03

U.S. Treasury Bond Yields

Maturity	Current*	Yesterday	Last Week	Last Month
3 Month	0.02	0.02	0.01	0.03
6 Month	0.03	0.03	0.04	0.06
1 Year	0.36	0.35	0.34	0.40
3 Year	0.66	0.67	0.67	0.80
5 Year	1.14	1.44	1.43	1.66
10 Year	2.63	2.67	2.69	2.82
20 Year	3.37	3.40	3.46	3.55
30 Year	3.85	3.67	3.75	3.80

Morningstar Government Bond Index

Name	1-Week	YTD	4-Week	13-Week	1-Year	3-Year	5-Year
US Govt Bond	0.38	-1.97	1.08	0.64	-1.84	2.34	4.14
Intermediate US Govt Bond	0.34	-1.81	1.49	1.07	-1.63	2.51	4.85
Long-Term US Govt Bond	1.30	-7.13	2.47	0.43	-7.12	-4.01	6.43
Short-Term US Govt Bond	0.06	0.13	0.37	0.50	0.25	0.94	2.21

Source: Morningstar  
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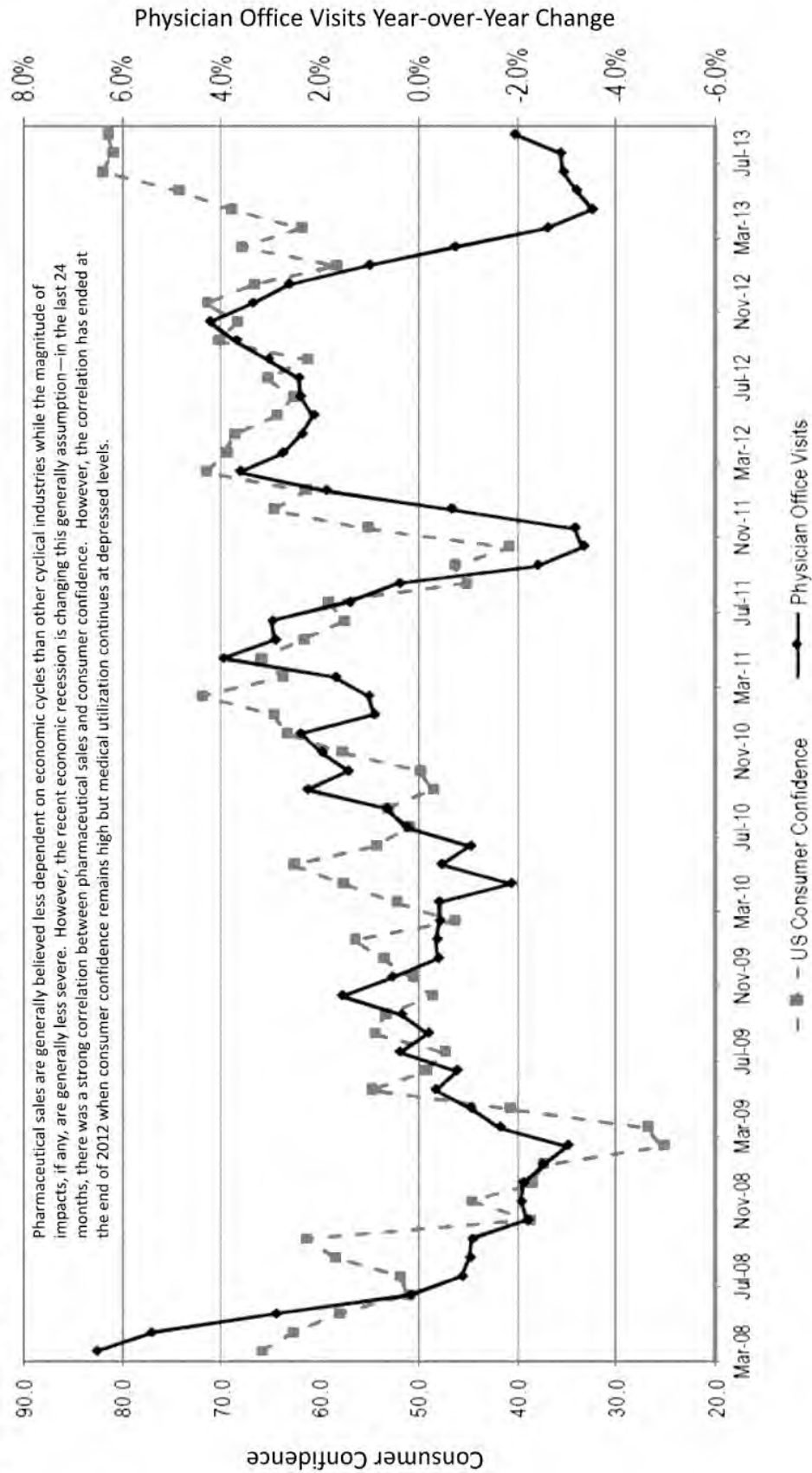


## 2.2.1 ♦ Financial ♦ Market

# Economic Performance

(cont.)

2013-September, J.P. Morgan Med Utilization Tracker Report is attached.



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Risk Owner	Chief Financial Officer
Elements of Risk	<ul style="list-style-type: none"><li>• Inflation affects Purdue's cost of doing business, e.g. labor costs, cost of raw materials, interest rate movement, etc.</li><li>• Cost of purchases in business contracts is often tied to an inflation index such as CPI or PPI.</li><li>• Actual inflation contributes to budget variance, if actual inflation materially varies from budget assumption.</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Using financial instruments to mitigate risk of inflation is very costly.</li><li>• Significant inflation news and public-domain inflation projections are shared with key finance executives so financial assumptions can be fine-tuned if necessary.</li><li>• Maximize use of fixed cost rate in business contracts.</li><li>• Monitor third-party outlook of U.S. inflation. (A recent copy is attached as a reference.)</li><li>• Use third-party analytical forecasts to support budgetary assumptions.</li></ul>
Further Actions	None
Reporting Procedures	<ul style="list-style-type: none"><li>• Significant inflation news and public-domain inflation projections are shared with key finance executives, as needed basis.</li></ul>

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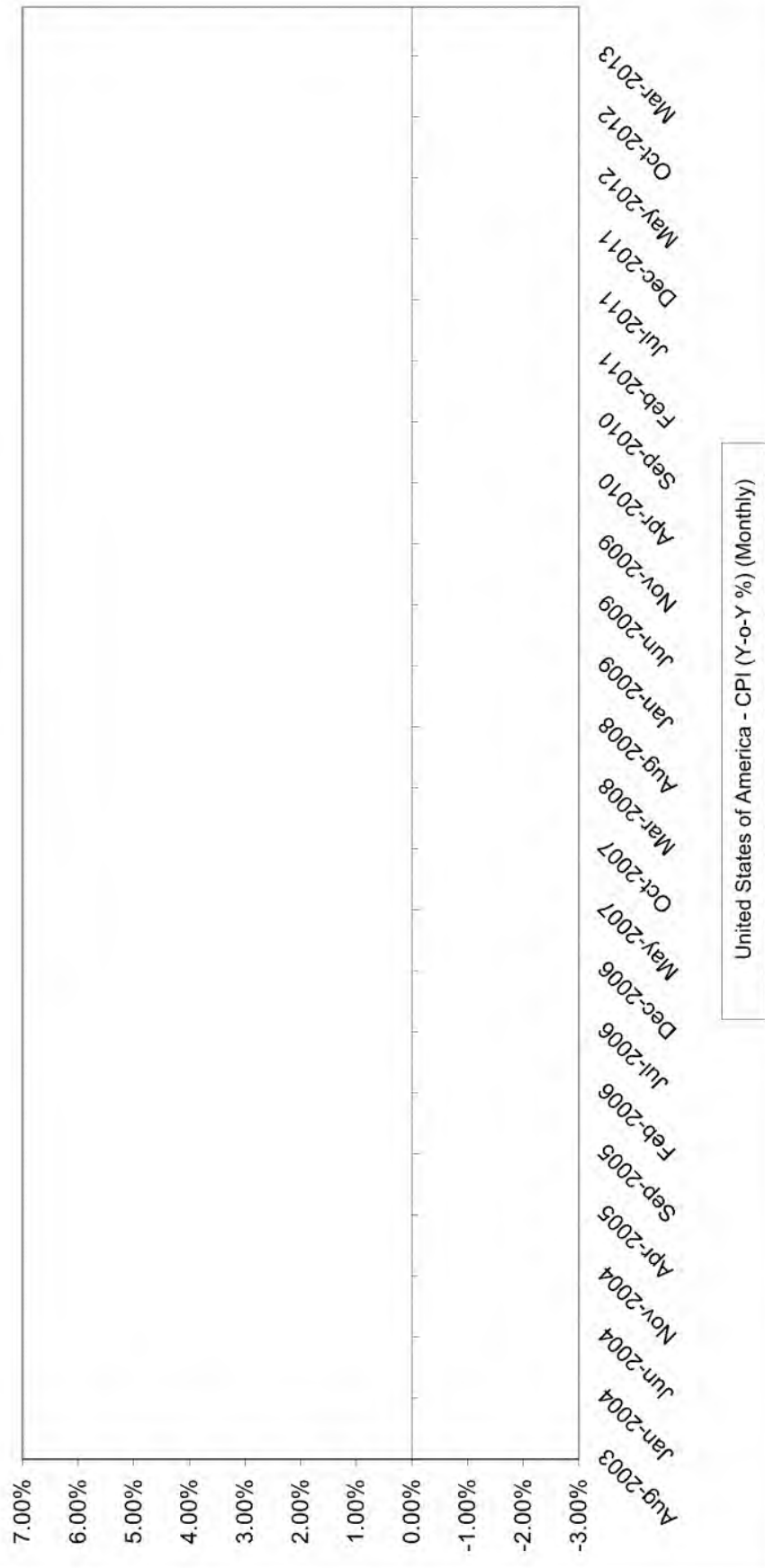
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2.2.2 ♦ Financial ♦ Market

# Inflation

Consumer Price Index

United States of America - CPI (Y-o-Y %) (Monthly)



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2.2.3 ♦ Financial ♦ Market

# The Affordable Care Act

Risk Owner	Purdue Corporate
Elements of Risk	<ul style="list-style-type: none"><li>• Health Care Reform requires increased rebates and other fees on pharmaceutical industry starting in 2010. Health Care Reform also includes Quality of Care standards/metrics and incentives in Government programs as well as provisions for Health Insurance Exchanges run by the individual states starting in 2014. Pharmacy Benefit Managers will play a major role in these areas.</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Managed Care organization and Rebate Pricing Committee (RPC) to develop strategies to meet challenges of Health Care Reform. RPC reports to Commercial Products Portfolio Committee.</li><li>• Working with Purdue's Law Department, continue ongoing review of rules, interpretation, and development of the Health Care Reform Act.</li><li>• Working with Purdue's Rebate/Reimbursement Group to include the financial impact into the budget financials.</li><li>• Monitor reports and analyses from equity analysts, market researchers, and Congressional Budget Offices for latest forecasts.</li></ul>
Further Actions	None
Reporting Procedures	<ul style="list-style-type: none"><li>• Financial impact is part of the budgeting and financial reporting process.</li></ul>

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2.2.3 ♦ Financial ♦ Market  
**The Affordable Care Act**  
(Cont.)

■ **Health Care Reform enacted in early 2010 increased rebates and other fees on the pharmaceutical industry.**  
Medicare Part D:

Effective January 1, 2011, manufacturers are required to pay 50% of the cost of a patient's prescription while in the donut hole.  
50 - \$2,840 Covered by patient and Medicare Part D program  
\$2,930 - \$6,658 Covered by patient and manufacturer (50/50)  
\$6,658+ Covered primarily by Medicare Part D program

Medicaid:

Change in base rebate rate percentage to 23.1% minimum for brand products  
States' Medicaid population shifting requiring increased rebates for formulary inclusion  
Managed Medicaid population covered by PBM is now entitled to higher Medicaid rate  
Medicaid expansion to extend coverage to those with incomes above 133% of federal poverty (beginning January 2014) struck down by US Supreme Court. States will have to determine how to handle patients through Health Insurance Exchanges. Subsidies likely required.

Annual Fee on Branded Prescription Pharmaceutical Sales:

Based on manufacturer's relative share of the aggregated branded drug sales across government programs (effective 2011 based on 2010 sales/market)

Impact of Health Care Reform:

	2010 ACT		2011 ACT		2012 Budget		2012 Latest Estimate		2013 Budget Proposal	
(\$MMs)										
Medicare Part D Coverage Gap	\$	-	\$	42.4	\$	34.1	\$	44.8	\$	45.4
Medicaid Managed Care Impact		15.8		7.4		12.5		8.2		11.4
Annual Pharmaceutical Fee		-		26.5		26.6		31.3		31.8
<b>Total</b>	<b>\$</b>	<b>15.8</b>	<b>\$</b>	<b>76.3</b>	<b>\$</b>	<b>73.2</b>	<b>\$</b>	<b>84.3</b>	<b>\$</b>	<b>88.6</b>
<b>Benefit of Lower Rebate on New Formulation of OxyContin</b>	<b>\$</b>	<b>40.0</b>	<b>\$</b>	<b>68.9</b>	<b>\$</b>	<b>74.8</b>	<b>\$</b>	<b>62.5</b>	<b>\$</b>	<b>65.6</b>

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TREAT SUBJECT TO PROTECTIVE ORDER

# 2.2.3 ♦ Financial ♦ Market

## The Affordable Care Act

(Cont.)

**Table 1. CBO's May 2013 Estimate of the Effects of the Affordable Care Act on Health Insurance Coverage**

EFFECTS ON INSURANCE COVERAGE <sup>a</sup>		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
(Millions of nonelderly people, by calendar year)												
Prior-Law Coverage <sup>b</sup>	Medicaid and CHIP	35	34	34	33	33	33	33	34	34	34	34
	Employment-Based	156	157	159	161	164	165	166	167	167	168	169
	Nongroup and Other <sup>c</sup>	25	25	26	26	27	27	27	27	28	28	28
	Uninsured <sup>d</sup>	57	57	57	56	56	55	55	56	56	56	56
	TOTAL	272	274	276	277	279	281	282	284	285	286	288
Change	Medicaid and CHIP	1	9	12	12	12	12	12	13	13	13	13
	Employment-Based <sup>e</sup>	2	*	-2	-6	-6	-7	-7	-7	-7	-7	-7
	Nongroup and Other <sup>e</sup>	*	-2	-3	-4	-5	-5	-5	-5	-5	-5	-5
	Insurance Exchanges	0	7	13	22	24	25	25	24	25	24	24
	Uninsured <sup>d</sup>	-2	-14	-20	-25	-25	-25	-25	-25	-25	-25	-25
Uninsured Under the Affordable Care Act												
Number of Uninsured Nonelderly People <sup>d</sup>		55	44	37	31	30	30	30	30	31	31	31
Insured Share of the Nonelderly Population <sup>a</sup>												
Including All Residents		80%	84%	86%	89%	89%	89%	89%	89%	89%	89%	89%
Excluding Unauthorized Immigrants		82%	86%	89%	91%	92%	92%	92%	92%	92%	92%	92%
Memo: Exchange Enrollees and Subsidies												
Number with Unaffordable Offer from Employer <sup>f</sup>			*	*	*	1	1	1	1	1	1	1
Number of Unsubsidized Exchange Enrollees			1	2	4	4	5	5	5	5	5	5
Average Exchange Subsidy per Subsidized Enrollee			\$5,290	\$5,330	\$5,350	\$5,590	\$5,990	\$6,240	\$6,720	\$7,060	\$7,460	\$7,900

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

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2.3.1 ♦ Financial ♦ Commodities

## Foreign Exchange

Risk Owner Chief Financial Officer / Treasurer

Elements of Risk • Purdue's foreign exchange exposure includes inflows of royalty income and outflows for German/Europe/Japan funding, Redacted R&D funding, and vendor payment.

• In 2013 Budget, Purdue has an inflow of \$41 million in 11 foreign currencies and an outflow of \$173 million in 7 foreign currencies. This results in a net outflow of \$132 million from 12 foreign currencies. Purdue's foreign exchange risk is dominated by the net outflow of €118 million in Euros.

• Appreciation or depreciation of U.S. dollars against foreign currencies can have material impacts onto Purdue's cash flows and financial results versus budget.

Existing Risk Management Controls

- Purdue's foreign exchange exposure is analyzed at least once a year.
- Projection of foreign exchange is provided by Bank of America.
- Multiple scenarios of foreign exchange movement are reviewed.
- Foreign exchange exposure is shared with the Board and advisors and is managed at a higher level.

Further Actions • None

Reporting Procedures

- Purdue's foreign exchange exposure analysis is done at least once a year.
- The FX exposure analysis was completed in January 2013.

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TREAT SUBJECT TO PROTECTIVE ORDER



		2013	1/18/2013
		Budget	Foreign
		FX Rate	Exchange
		Per 1 USD	Rate
<u>Foreign Exchange Forecast Rates</u>			Spot
AUD	Australian Dollars	0.96	0.95
CAD	Canadian Dollars	0.98	0.99
CHF	Swiss Franc	0.94	0.93
EUR	Euros	0.78	0.77
GBP	British Pounds	0.62	0.62
JPY	Japanese Yen	77.80	88.00
KRW	Korean Won	1,110	1,064
MYR	Malaysian Ringgits	3.06	3.04
NOK	Norwegian Krone	5.72	5.61
NZD	New Zealand Dollars	1.20	1.19
PHP	Philippine Peso	41.70	40.91
PLN	Polish Zloty	3.20	3.17
SGD	Singapore Dollars	1.23	1.23

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2.3.1 + Financial + Commodities  
**Foreign Exchange**  
(Cont.)

Purdue Foreign Currency Exposure Summary 2013 Budget and Budget Rates \$000s - Inflows / (Outflows)	Foreign Exchange Exposure in US Dollars Equivalent						Total
	Euros EUR	Canadian Dollars CAD	Japanese Yen JPY	Pound Sterling GBP	Swiss Franc CHF	Others	

Royalties - OxyContin 6,860 13,009 10,983 3,515 1,164 5,023 40,554

Redacted

ex-USA OxyContin Development Costs - - (1,205) - - (1,205)

Significant Vendor Payments (Legal, CRO, etc.) (4,838) (192) (682) (6,582) (736) (2,426) (15,457)

NET Subtotal - Inflows/(Outflows): \$ (66,568) \$ 12,817 \$ 10,301 \$ (4,272) \$ 428 \$ 2,597 \$ (44,698)

Start-Up Funding (Europe, Germany) (84,785) - - - (2,872) - (87,657)

NET Grand Total - Inflows/(Outflows): \$ (151,353) \$ 12,817 \$ 10,301 \$ (4,272) \$ (2,444) \$ 2,597 \$ (132,355)

Notes:

Redacted

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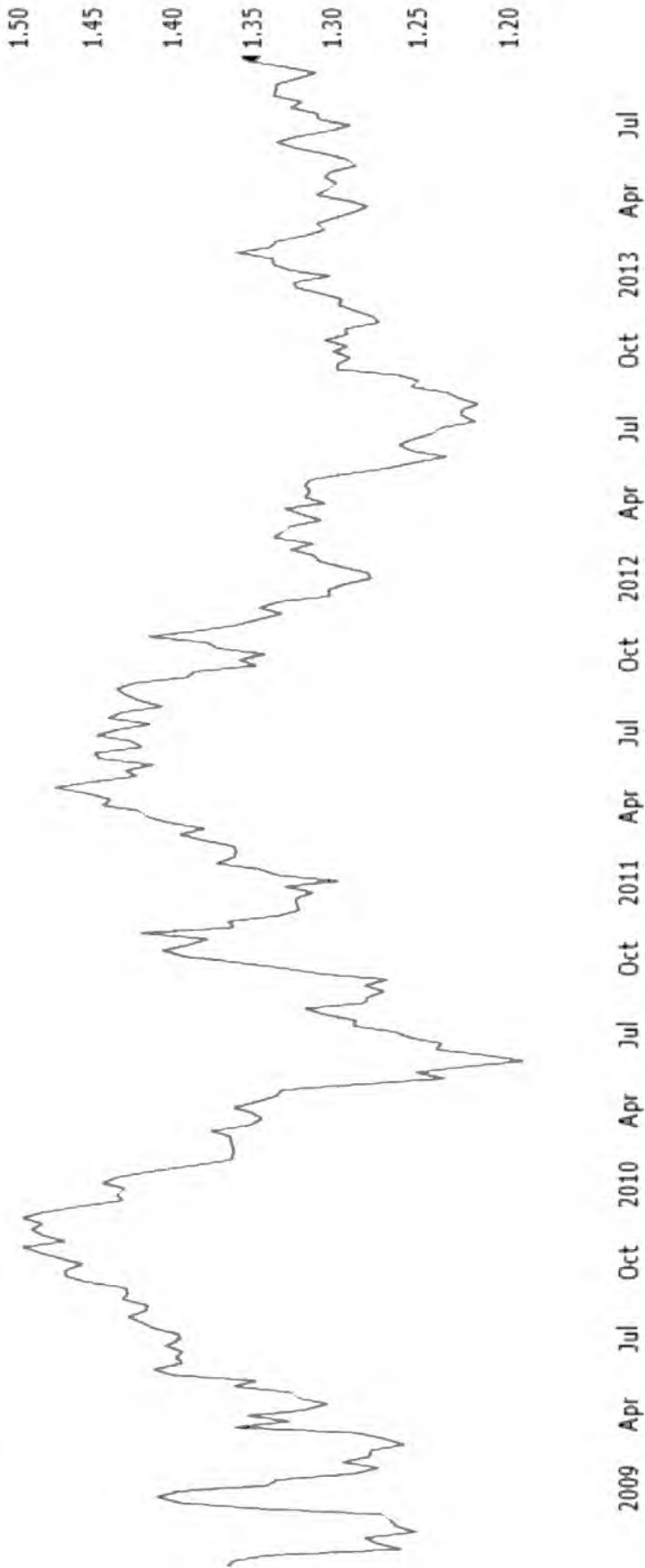
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2.3.1 ♦ Financial ♦ Commodities  
**Foreign Exchange**  
(Cont.)

**Euro/USD Exchange Rate**  
(5-Year History)

Week of Sep 23, 2013: ■ EURUSD=X 1.3517



Source: Yahoo Finance

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2.3.2 ♦ Financial ♦ Commodities

# Energy

## Risk Owner Corporate Procurement

- Elements of Risk
- Energy prices are subject to influences of many factors such as supply, demand, geopolitical event, economic policy, value of the U.S. dollars, etc.
  - Purdue's 2013 budget projected a spend of \$13.6 million in various energy uses such as electricity, natural gas and gasoline.
  - Material fluctuations in energy prices and supply could significantly impact manufacturing costs, supply chain, product supply to customers and financial results.

## Existing Risk Management Controls

- Corporate Procurement placed long-term contracts: 50% of the 2013 budget are fixed-priced.
- Long-term projection of energy prices is built into the 2013 budget assumption, i.e. average gasoline price in 2013. (another 31%)
- 52% of the 2013 budget is electricity and 19% of it is variable-priced. Electricity rates are subject to regulatory review and a mix of different generation methods such as coal, gas, nuclear, hydro, etc. Material change within a 12-month window is unlikely.
- Thus, true exposure is only at 9% (or \$1.3MM) of the 2013 energy budget.
- Purdue's property policy that covers property damage or business interruption as a result of a service interruption has a \$100/50mm service interruption sublimit for U.S./ex-USA.

## Further Actions

- None

## Reporting Procedures Annual risk review with Corporate Procurement

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## 2.3.2 ♦ Financial ♦ Commodities

Energy  
(Cont.)

## Energy Forecast by Bank of America, 9/25/2013

- **Macro outlook** For 2H13, we believe commodity demand will find support on a modest improvement in global economic growth, but remain concerned by the lack of growth momentum in EMs, rising geopolitical risk and large-scale monetary easing by the Fed.
- Higher US interest rates, EM FX depreciation and the subsequent flow of capital out of EMs does not bode well for commodity prices, as demand is largely reliant China and other EMs. Persistent high prices in local currencies may lead to demand destruction.
- **WTI and Brent crude oil** Global crude oil markets have seen widespread oil supply disruptions across the MENA region, but headlines on both diplomatic progress in Syria and improving exports from Libya have helped tightness recede.
- A return of Iranian oil presents moderate risk to the oil market, in our view, as a partial removal of Saudi Arabian oil could cushion the blow to prices. Net, we believe the return of 1 mn b/d could push prices \$10/bbl lower although a full recovery will likely be difficult.
- Softer EM oil demand growth, continued strength in non-OPEC supply growth plus a seasonal slowdown in demand should lead Brent crude oil prices to avg \$102/bbl in 4Q13. Next year, we believe prices will fail to push much higher and forecast avg \$105/bbl for 2014.
- Beyond 2014, we see less of a structural oil market deficit on softer EM activity and a rise in non-conventional oil supply. We see growing risk that Brent moves down structurally to a \$90-100/bbl band.
- For WTI, we forecast avg 4Q13 prices of \$99/bbl on the back of rising domestic supplies and surging crude runs. For 2014, we see prices averaging \$92/bbl as surging shale oil output plus storage and import displacement limitations continue to present downside risk.
- Long-dated contracts for delivery in years such as 2019 & 2020 dropped to \$80/bbl, signalling a normalization of energy sector returns.
- Unless crude export regulatory constraints are removed, we see risk of WTI prices falling to \$50/bbl over the next 24 months.

	units	3Q13F	4Q13F	2013F	1Q14F	2Q14F	3Q14F	4Q14F	2014F
WTI Crude Oil	(\$/bbl)	101.00	99.00	97.00	90.00	90.00	94.00	94.00	92.00
Brent Crude Oil	(\$/bbl)	104.00	102.00	105.00	101.00	103.00	107.00	109.00	105.00
US NY Harbor ULSD (HO) Cracks to Brent Crude Oil	(\$/bbl)	17.82	19.00	17.64	16.00	14.00	17.00	18.00	16.25
US RBOB Cracks to Brent Crude Oil	(\$/bbl)	11.32	1.00	10.51	5.00	9.00	8.00	2.00	6.00
USGC 1% Residual Cracks to Brent Crude Oil	(\$/bbl)	(17.28)	(14.00)	(14.45)	(11.00)	(9.00)	(8.00)	(7.00)	(8.75)
NWE 0.2% Gasoil Cracks to Brent Crude Oil	(\$/bbl)	14.52	17.00	14.97	18.00	13.00	12.00	14.00	14.25
NWE Eurobob Cracks to Brent Crude Oil	(\$/bbl)	10.09	0.50	7.92	3.00	5.00	7.00	1.00	4.00
NWE 1% Residual Cracks to Brent Crude Oil	(\$/bbl)	(15.66)	(16.00)	(13.84)	(14.00)	(12.00)	(12.00)	(10.00)	(12.00)
US Natural Gas	(\$/MMBtu)	3.80	4.30	3.90	4.30	4.10	4.00	4.40	4.20
Thermal coal, Newcastle FOB	(\$/t)	76	74	83	77	79	85	87	82

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2.3.2 ♦ Financial ♦ Commodities

**Energy**  
(Cont.)

**ELECTRIC**

Vendor	Site	2013 Bud	Fixed or Variable	Percent Of Spend	Contract Years	Contract Start	Contract Rates
CL&P / Hess	OSF	\$2,442,977	F	34%	3	12/1/2010 *	7.92
CL&P / Hess	Stanford Warehouse	\$38,850	V	1%	No		
Nat'l Grid/TransCanada	Rhodes	\$1,200,000	F	17%	2	1-Jan-12	8.15
Reliant / NRG	Cranbury	\$925,000	F	13%	3	1-Aug-13	7.47
Reliant / NRG	Totowa	\$1,235,820	F	17%	3	1-Aug-13	7.47
City of Wilson	Wilson	\$1,286,600	V	18%	0	Municipality (Not de-regulated)	
<b>Total Electric Expense</b>		<b>\$7,129,247</b>		<b>100%</b>			
		<b>Electric:</b>		<b>19% Variable</b>			<b>\$1,325,450</b>
				<b>81% Fixed</b>			<b>\$5,803,797</b>

**GAS**

Vendor	Site	2013 Bud	Fixed or Variable	Percent Of Spend	Contract Years	Contract Start	Contract Rates
Hess	OSF	\$168,153	F	7%	3	1-Jan-14	7.775
CL&P / Hess	Stanford Warehouse	\$44,100	V	2%	No		
Hess	Cranbury	\$325,000	F	14%	3	1-Dec-12	5.29
Hess	Totowa	\$492,600	F	22%	3	1-Dec-12	5.29
Nat'l Grid/Direct Energy	Rhodes	\$700,000	V	31%			
City of Wilson	Wilson	\$538,000	V	24%		Variable Rate (Not de-regulated)	
<b>Total Gas Expense</b>		<b>\$2,267,853</b>		<b>100%</b>			
		<b>Gas:</b>		<b>57% Variable</b>			<b>\$1,282,100</b>
				<b>43% Fixed</b>			<b>\$985,753</b>

**GASOLINE**

Gasoline	All (Purdue + Quintiles Sales)	\$4,195,674	V			Not sure if the Quintiles impact of \$1,474,800 was reduced from the budget	
<b>Total Gasoline Expense</b>		<b>\$4,195,674</b>		<b>100% Variable</b>			<b>\$4,195,674</b>
<b>Totals:</b>		<b>\$13,592,774</b>		<b>50% Variable</b>			<b>\$6,803,224</b>
				<b>50% Fixed</b>			<b>\$6,789,550</b>

\* Online Auction for Stanford e lementary will be held on September 16, 2013  
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2.4.1 ♦ Financial ♦ Insurance

# Insurers' Financial Stability

Risk Owner	Treasurer
Elements of Risk	<ul style="list-style-type: none"><li>• Insurer's financial ability to pay claims</li><li>• Continuity of Purdue's insurance policies</li><li>• Investment performance which affects insurer's financial position and profitability</li></ul>
Existing Risk	<ul style="list-style-type: none"><li>• Review of each insurer's A.M. Best ratings which take into account insurer's claim losses and investment performance.</li></ul>
Management Controls	<ul style="list-style-type: none"><li>• Minimum A.M. Best rating of A- or above (A- = Excellent)</li></ul>
Further Actions	None
Reporting Procedures	Annual reviews prior to renewals

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## A.M. Best Company – Insurance Financial Strength Rating

Rating Scale – FSR		
Secure		
A++ and A+	Superior	
A and A-	Excellent	
B++ and B+	Good	
Vulnerable		
B and B-	Fair	
C++ and C+	Marginal	
C and C-	Weak	
D	Poor	
E	Under Regulatory Supervision	
F	In Liquidation	
S	Suspended	

- **A.M. Best Company** is a global full-service credit rating agency dedicated to serving the financial and health-care service industries. It began assigning credit ratings in 1906, making it the first of today's rating agencies to use symbols to differentiate the relative creditworthiness of companies.
- Best's Credit Ratings are independent opinions regarding the creditworthiness of an issuer or debt obligation. Best's Credit Ratings are based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile, or, where appropriate, the specific nature and details of a debt security.

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2.4.1 Financial Insurance  
**Insurers' Financial Stability**  
(A.M. Best Financial Strength Rating)

**Global Insurance Policies (2012-2013) - not including locally admitted policies.**

US - only	Policy Type	Limits	Best Rating (8/29/12)	Outlook
Liberty Mutual Fire Insurance Co.	Worker Comp/Employers Liability	\$2,000,000	A	Stable
Liberty Mutual Fire Insurance Co.	Auto Liability	\$2,000,000	A	Stable
Liberty Mutual Fire Insurance Co.	General Liability	\$1,750,000	A	Stable
Liberty Mutual Fire Insurance Co.	Products Front	\$10,000,000	A	Stable
<b>Global</b>				
Liberty Mutual Fire Insurance Co.	Umbrella Liability	\$25,000,000	A	Stable
American Guarantee & Liability (Zurich)	Excess Liability	\$25,000,000	A+	Stable
XL Insurance America Inc.	Excess Liability	\$25,000,000	A	Stable
FM Global	Property	\$1,000,000,000	A+	Stable
National Liability & Fire Ins. Co (CV Starr)	Ocean Cargo	\$20MM /\$35MM (US/Can)	A	Stable
National Union Fire Ins (AIG)	Primary D&O	\$25,000,000	A	Stable
Zurich American Insurance Company	1st Excess D&O	\$15,000,000	A+	Stable
US Specialty Insurance Co. (HCC)	2nd Excess D&O	\$15,000,000	A+	Stable
Allied World National Assurance Company (AWAC)	3rd Excess D&O - non-US	\$15,000,000	A	Stable
Arch Insurance Co.	4th Excess D&O - non-US only	\$10,000,000	A+	Stable
XL Insurance America Inc.	Excess Liability	\$25,000,000	A	Stable
National Union Fire Ins (AIG)	EPL/Fiduciary	\$15,000,000	A	Stable
Zurich American Insurance Company	Crime	\$15,000,000	A+	Stable
Great American Insurance Company	Special Contingency	\$25,000,000	A	Positive
<b>Non - US</b>				
Insurance Co of the State of Pennsylvania (AIG)	Foreign GL/Excess/AL DIC	\$2,000,000	A	Stable
Insurance Co of the State of Pennsylvania (AIG)	Foreign EL/WC	\$2,000,000	A	Stable
Insurance Co of the State of Pennsylvania (AIG)	Non-US Products/CTA front	\$10,000,000	A	Stable
QBE International Insurance	Non-US Products/CTA excess	\$30,000,000	A	Stable
Newline	Non-US Products/CTA excess	\$15,000,000	A	Stable
<b>OSRLP</b>				
Federal Insurance Co.	Property	\$162,087,938	A++	Stable
Federal Insurance Co.	General Liability	\$1,750,000	A++	Stable
St. Paul Fire & Marine Insurance Co.	Umbrella Liability	\$25,000,000	A+	Stable
Federal Insurance Co.	Excess Liability	\$25,000,000	A++	Stable

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2.4.2 ♦ Financial ♦ Insurance  
**Property Insurance**

Risk Owner	Treasurer
Elements of Risk	<ul style="list-style-type: none"><li>• Property loss or damage</li><li>• Interruption of utilities</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Loss prevention programs</li><li>• Safety programs</li><li>• Back up manufacturing for Wilson</li><li>• Back up sourcing for API</li><li>• Purdue's property insurance has \$1 billion limits (subject to sub-limits on flood, quake, etc). Its coverage would allow Purdue to roughly cover between three and four months of sales.</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• Consider qualifying a backup for Morphine Sulfate API for Rhodes Pharma (Note: A second source strategy is in place for morphine for Rhodes Pharma. Plan is to qualify Rhodes Technologies API, scheduled to be available in 2014.)</li><li>• New back up facility to replace Totowa (announced at Treyburn Corporate Park in Durham County, North Carolina, in September 2013)</li></ul>
Reporting Procedures	Annual risk review

9/30/2013

Risk Management: Annual Review

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2.4.2 • Financial • Insurance  
**Property Insurance**  
(Cont.)

**Manufacturing Facilities**

- Wilson received the 2010 Award of Excellence from FM Global. Totowa received the same award in 2011. Cranbury to receive this award in 2013. These facilities were recognized for their significant contributions and their commitment to property loss prevention. This award is given to less than 1% of the sites FM Global inspects.
- Coventry receive HPR status in late 2011.
- Wilson – converted to dual fuel boilers and installation of two 30,000 diesel tanks for the boilers and generators. This will allow Wilson to run up to eight days without electricity and gas.
- Rhodes – Generators will only run controlled shutdown of critical processes and life safety systems.
- Totowa – No generators.
- Property Insurance has \$1 billion limits (subject to sub-limits on flood, quake, etc). Based on the cost to replace the fixed assets and inventory at Wilson of approximately \$170mm and an average monthly sales margin of \$250mm, our coverage would allow us to cover between 3 to 4 months of sales. Within the time period to ramp up Totowa.
- In late 2012, Purdue and Mundipharma met with F.M. Global in exploring further opportunities in property loss prevention at major manufacturing and research facilities. The meeting was found to be productive. The major takeaway was for Mundipharma/Napp to provide FM Global with a continuity plan for Cambridge. All parties participated agreed to participate at a follow up meeting in late 2013.

9/30/2013

Risk Management: Annual Review



2.4.3 ♦ Financial ♦ Insurance

# Product Liability Insurance

Risk Owner	Purdue Corporate
Elements of Risk	<ul style="list-style-type: none"><li>• Injury</li><li>• Death</li><li>• Diversion</li><li>• Abuse</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Shipping/Distribution security</li><li>• Sales and Marketing training</li><li>• Product education</li><li>• REMS</li><li>• ORF (new formulation)</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• In mid-2012, Purdue worked with two insurance brokers in exploring the insurance market capacity for a product liability policy. The conclusion was that the available product liability insurance is not cost-justified. A check of the product liability insurance markets in mid-2013 resulted with same conclusion.</li><li>• Continue monitor commercial availability and price of product liability insurance</li></ul>
Reporting Procedures	Annual risk review

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Risk Management: Annual Review

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2.4.4 ♦ Financial ♦ Insurance

## Product Recall

Risk Owner	Purdue Corporate
Elements of Risk	<ul style="list-style-type: none"><li>• Quality</li><li>• Labeling</li><li>• Tampering</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Quality Assurance Plan</li><li>• GMP</li><li>• Quality Testing</li><li>• Recall plan in place</li><li>• \$10MM insurance for tampering as a result of a documented threat</li></ul>
Further Action	Continue to monitor recall insurance availability
Reporting Procedures	Annual risk review

9/30/2013

Risk Management: Annual Review

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2.4.5 ♦ Financial ♦ Insurance

# Shipping / Distribution

Risk Owner	Corporate Security
Element of Risk	<ul style="list-style-type: none"><li>• Theft</li><li>• Hijacking</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• RFID</li><li>• Shipping security protocols</li><li>• Periodic audit of carriers</li><li>• Due diligence/vetting of potential new carriers</li><li>• \$35MM (shipping within US)/\$10MM (shipping outside US) insurance per shipment</li></ul>
Further Actions	None
Reporting Procedures	Annual review

9/30/2013

Risk Management: Annual Review

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3.1.1 ♦ Operational ♦ Value-Chain

## Customers – Credit Risk

Risk Owner	Sales Department
Elements of Risk	<ul style="list-style-type: none"><li>• Creditworthiness of customers</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Annual review of all customers with exposures &gt; \$25k or &gt; \$50k annual sales (i.e. about ~120 customers are annually reviewed.)</li><li>• News alerts of publically-traded customers are reviewed daily.</li><li>• For privately-held companies we receive at minimum annual reports and for some interim financials. We have good relationships with their senior financial management and talk as needed.</li><li>• Credit lines are based on customer needs and ability to pay.</li><li>• Additional credit requests exceed \$1.0mm--the Controller must approve our exposure, and if it exceeds \$2.0mm the EVP/CFO must approve the exposure.</li></ul>
Further Actions	None
Reporting Procedures	<ul style="list-style-type: none"><li>• Significant customer developments are communicated with Sales, Customer Service, and others promptly</li><li>• Annual review performed by Credit Department</li></ul>

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Risk Management: Annual Review

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UNREDACTED - CONTAINS OUTSIDE PROFESSIONALS' EYES ONLY INFORMATION.  
TREAT SUBJECT TO PROTECTIVE ORDER

3.1.1 ♦ Operational ♦ Value-Chain

## Customers – Credit Risk

(Cont.)

- During 2012, Purdue's average accounts receivable balance was \$251 million.
- Our 3 largest customers—AmerisourceBergen, Cardinal Health, and McKesson Corp.—account for approximately 90% of our sales and accounts receivable.
- If one of these Big 3s went under, the supply to our end customers would be uninterrupted since customers would go to their secondary suppliers.
- Based on current credit review, we think that it is unlikely to encounter a credit risk from one of the Big 3 wholesalers in the immediate time horizon.

9/30/2013

Risk Management: Annual Review

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3.1.2 ♦ Operational ♦ Value-Chain

# Vendors – Financial Risk

Risk Owner	Procurement
Elements of Risk	<ul style="list-style-type: none"><li>• Continuity of mission-critical supplies, materials, and services</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Annual Review of “Critical Vendors” as identified by users -- (approx. 215) by Credit group</li><li>• News alerts of publically-traded vendors are reviewed two times per week</li><li>• Upon request by business managers, Credit will review new vendors who have potential significant spend as part of the RFP process.</li></ul>
Further Action	None
Reporting Procedure	<ul style="list-style-type: none"><li>• Significant vendor developments are communicated with Procurement, business managers, and others promptly.</li><li>• Annual review performed by Credit Department</li></ul>

## Supply Chain – Continuity

Risk Owner	Corporate Procurement
Elements of Risk	<ul style="list-style-type: none"><li>• Disruption of critical raw material supplies</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Qualify secondary source</li><li>• Proprietary sources should have back up manufacturing sites</li><li>• Review Business Continuity Plan of suppliers</li><li>• Stock ample levels of raw material without secondary source</li><li>• Due diligence is performed on prospective suppliers/manufacturers of a pending licensing and business development transaction.</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• Consider qualifying a backup for Morphine Sulfate API for Rhodes Pharma (Note: A second source strategy is in place for morphine for Rhodes Pharma. Plan is to qualify Rhodes Technologies API, scheduled to be available in 2014.)</li></ul>
Reporting Procedures	Annual reporting

9/30/2013

Risk Management: Annual Review

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3.1.4 ♦ Operational ♦ Value-Chain  
**3rd-Party Partner  
Financial Obligations**

Risk Owner	Chief Financial Officer
Elements of Risk	<ul style="list-style-type: none"><li>• Non compliance of contractual obligation</li><li>• Failure to receive cash inflows timely</li><li>• Failure to pay cash outflows timely</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Negotiated contract terms developed by a cross-functional team (including Finance)</li><li>• Audit rights included in all contracts</li><li>• Identified individuals responsible for the 3rd-party financial obligations: cash outflows or inflows and reporting</li><li>• Monitoring of business partners including review of public disclosures and financial statements</li><li>• Specific Finance staff members are assigned to manage the financial obligations of key 3rd-party partners.</li><li>• Quarterly royalty (incoming or outgoing) reports are prepared by Finance staff and reviewed/shared with CFO</li><li>• Additional details and explanations are requested for unusual sales variances and significant gross-to-net deductions</li></ul>
Further Actions	None
Reporting Procedures	<ul style="list-style-type: none"><li>• Quarterly royalty (incoming or outgoing) reports are prepared by Finance staff and reviewed/shared with CFO</li></ul>

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Risk Management: Annual Review

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3.1.5 Operational Value-Chain  
**PBM Frauds / GPO Frauds**

Risk Owner	Chief Financial Officer & Managed Markets Contracting & Operations
Elements of Risk	<ul style="list-style-type: none"><li>• Risks in contracting</li><li>• Enforcement of contracts</li><li>• Audit of contract terms require additional resources and utilization of 3<sup>rd</sup> party auditors for major PBMs</li><li>• Invalid/fraudulent activities</li><li>• Maintain relationship with payors, while ensuring compliance</li><li>• Rebate Pricing Committee (RPC) oversees pricing, discounts and rebating strategy and has regularly scheduled meetings</li><li>• Audits of contract terms by Purdue or third-party auditors</li><li>• Data validation of 99% of commercial and Medicare Part D business by IMS.</li><li>• Review trends of PBM rebates, in relation to sales trend</li><li>• Monitor managed care industry news</li></ul>
Further Actions	None
Reporting Procedures	<ul style="list-style-type: none"><li>• Rebate Pricing Committee meeting minutes and action items</li><li>• RPC reports audit findings to Executive Audit Committee at least annually.</li></ul>

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3.2.1 ♦ Operational ♦ Information Technology

## Cyber Security

Risk Owner Chief Information Officer

Elements of Risk

- Hacking
- Viruses and Malware
- Data Thefts
- Intrusions
- Disgruntle employees
- Supply Chain
- Intrusion detection
- Symantec Anti-virus software
- Local firewall agents
- Proxy servers
- Employee access control
- GPS support (for Purdue's shipments)
- Zscaler content filtering
- Tripwire
- Data Privacy Policy

Further Actions

Annual end user audit

Reporting Procedures

Annual Reporting

9/30/2013

Risk Management: Annual Review

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3.2.2 ♦ Operational ♦ Information Technology

# Disaster Recovery / Backup Systems

Risk Owner	Chief Information Officer
Elements of Risk	<ul style="list-style-type: none"><li>• Data center outage</li><li>• Data center force majeure</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Stamford Data Center and Wilson Data Center utilizing a mix of disk, tape, and virtual backups.</li><li>• Back up tapes sent to 3rd party site</li><li>• Establish hot sites/warm sites</li><li>• Best case recovery time is 48 hours for mission-critical applications</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• Continue migration to tapeless backup for all systems – no need for disk and tape backups</li><li>• Increase the number of systems utilizing replication based recovery to improve recovery time of mission-critical applications</li></ul>
Reporting Procedures	Annual reporting

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Risk Management: Annual Review

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# EXHIBIT 81

**Produced Natively**



# Risk Identification and Mitigation

## Selected Risks

Risks addressed separately from this report include:  
Human Resources, Litigation, Compliance, Facility,  
Security, Research and Development, Intellectual  
Property, EHS, and Environment.

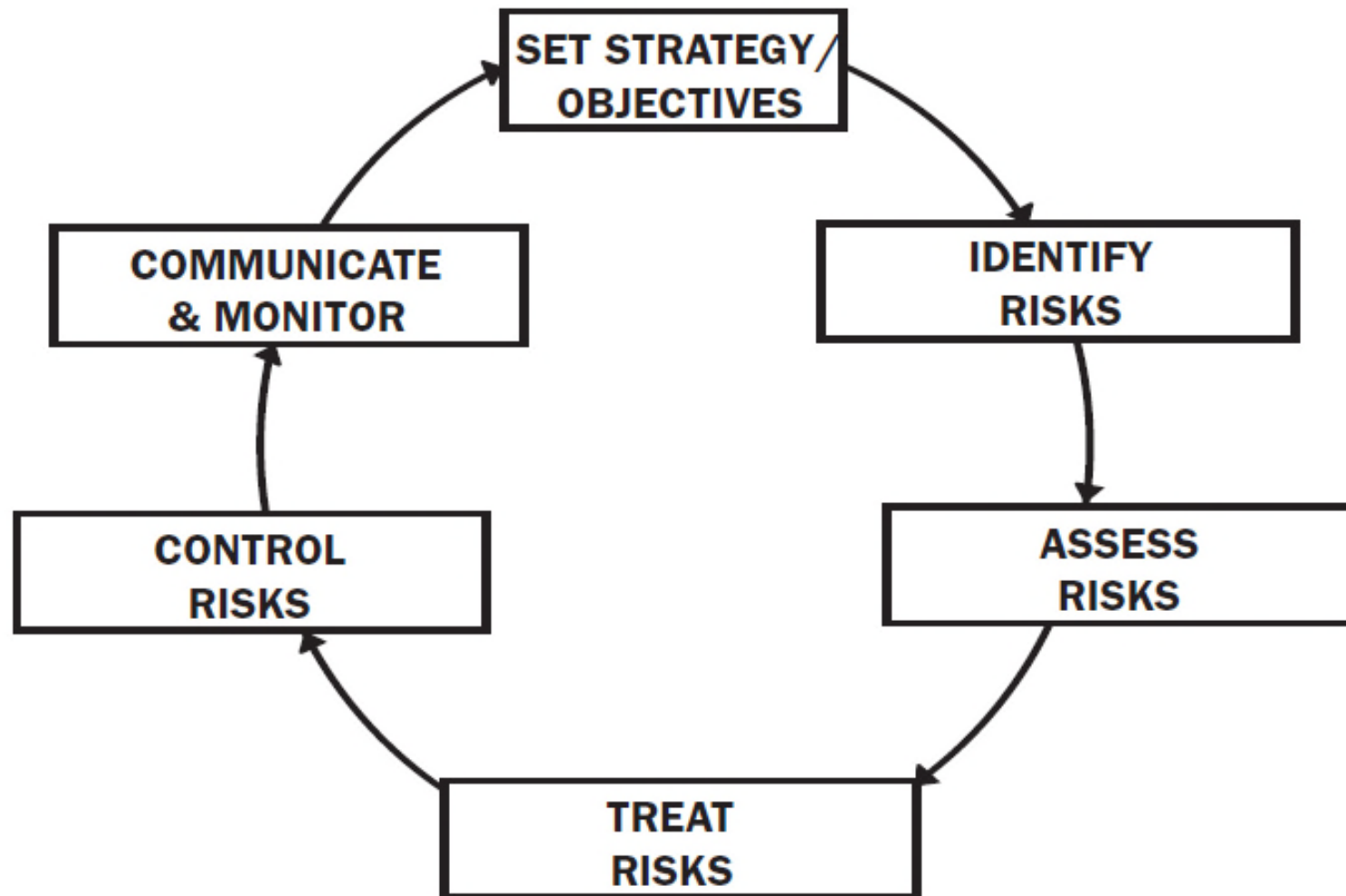
December 1, 2014  
Confidential

# Executive Summary

- 26 different risk types are reviewed in the 2014 Annual Financial Risk Identification and Mitigation Report. In summary, Purdue put in place adequate risk controls and risk mitigation tools in managing these risks.
- Standard risk reporting format is used: (i) Risk Owner, (ii) Elements of Risk, (iii) Existing Risk Management Controls, (iv) Further Actions, and (v) Reporting Procedures.
- The risk review process is based on a “standard” process recommended by the Institute of Management Accountants’ Statements on Management Accounting--*Enterprise Risk Management: Frameworks, Elements, and Integration*.
- The reporting format is based on a risk reporting template recommended by the Corporate Executive Board organization.
- Page 7 has the Table of Contents.

Note: This report only selects a limited number of risk types for review. This is not a comprehensive review of enterprise risks. A comprehensive Enterprise Risk Management review was completed with Purdue Executive Committee in Q2-2011, which is planned to be refreshed in 2014.

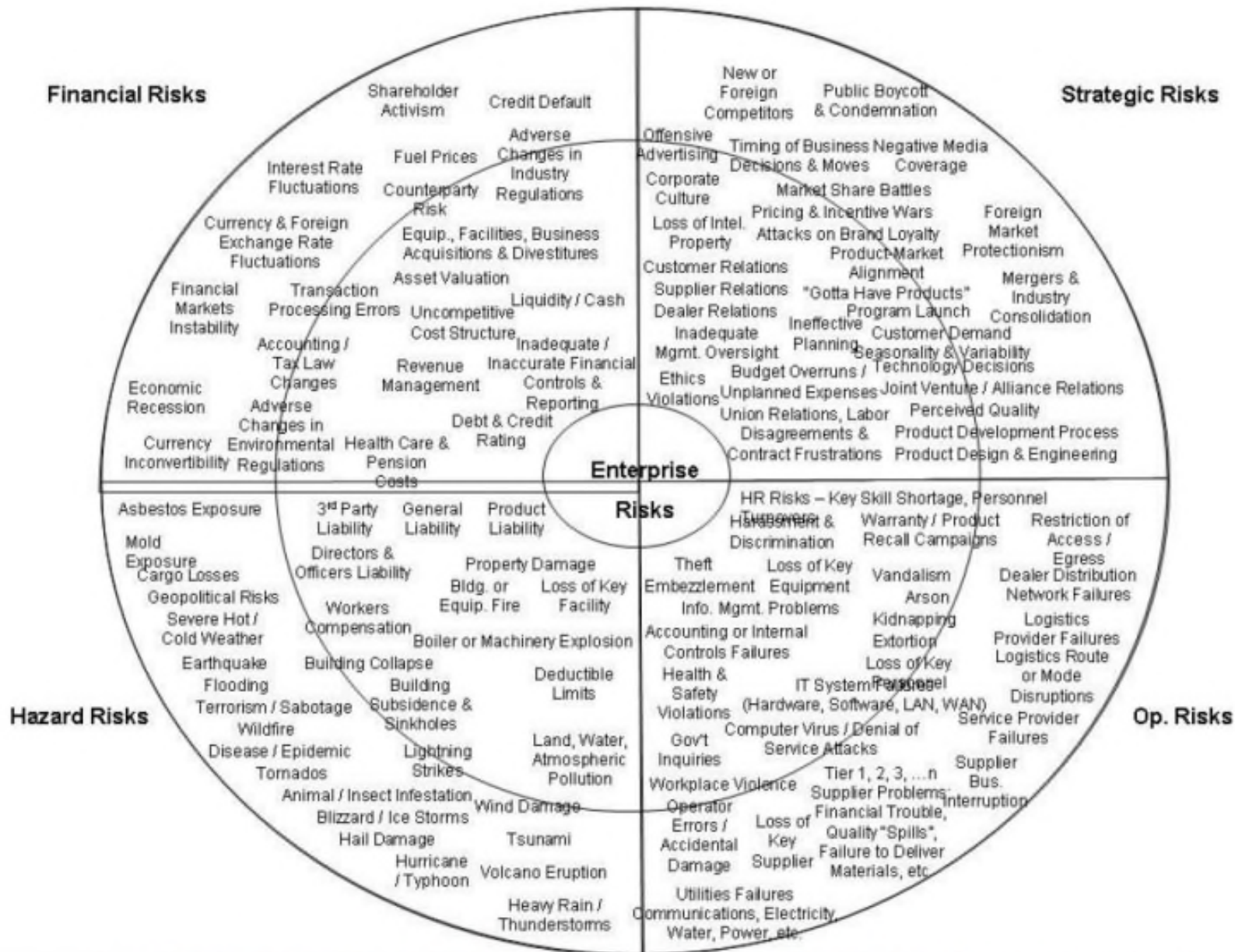
# A Continuous Risk Management Process



Source: Adapted from Institute of Chartered Accountants in England and Wales, *No Surprises: The Case for Better Risk Reporting*, ICAEW, London, U.K., 1999, p. 47.



# An Example of Comprehensive Risk



## Rating Scale

### • Probability of Occurrence

- High
- Medium
- Low

### • Severity / Impact

- High
- Medium
- Low

Source: Debra Elkins, "Managing Enterprise Risks in Global Automatic Manufacturing Operations," presentation at the University of Virginia, January 23, 2006. Permission granted for use.

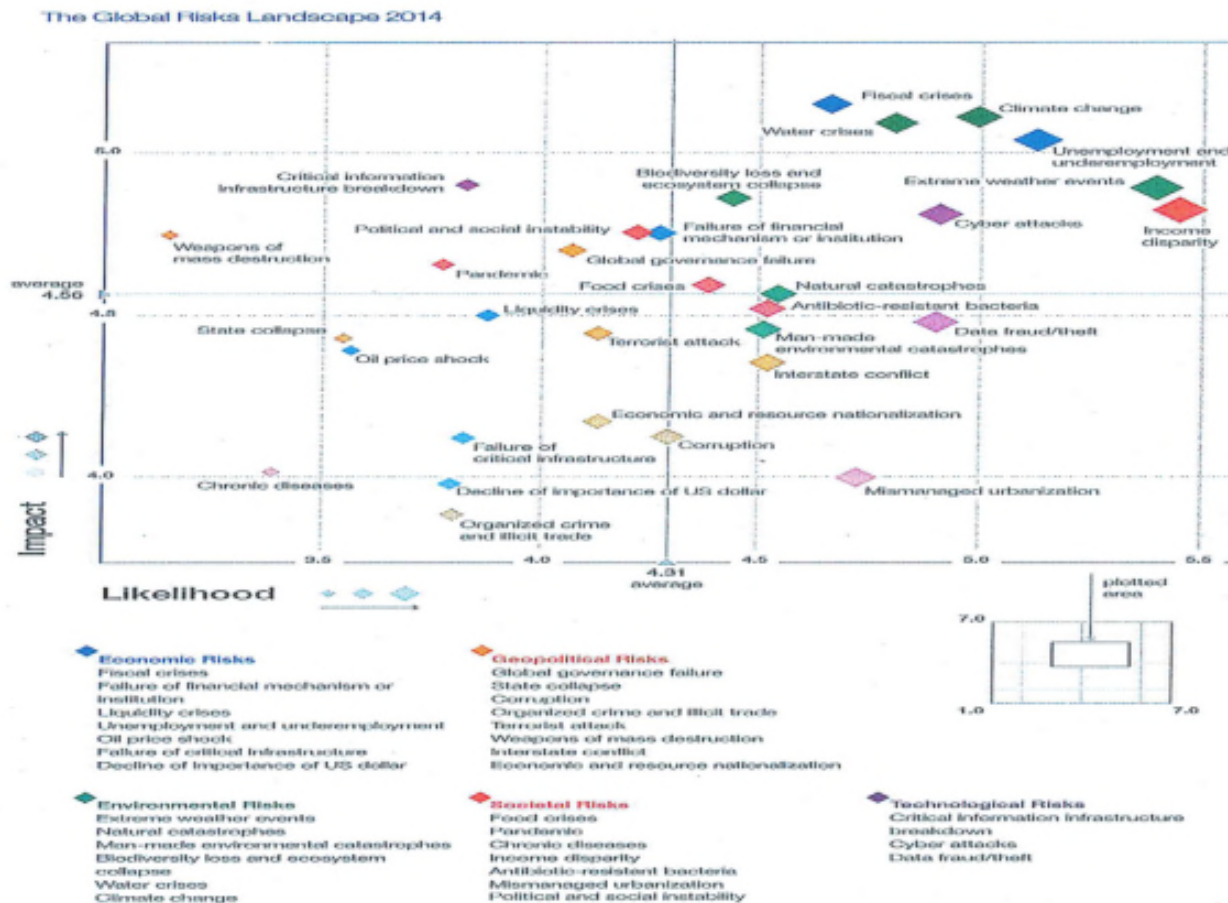
# Top Ten Risks

## Global Risks Landscape 2014, World Economic Forum

- Fiscal crises in key economies
- Structurally high unemployment/underemployment
- Water crises
- Severe income disparity
- Failure of climate change mitigation and adaptation
- Greater incidence of extreme weather events
- Global governance failure
- Food crises
- Failure of a major financial mechanism/institution
- Profound political and social instability

# Global Risk Categories

## Global Risks Landscape 2014, World Economic Forum



Source: Global Risks Perception Survey 2013-2014.  
Note: Survey respondents were asked to assess the likelihood and impact of the individual risks on a scale of 1 to 7, 1 representing a risk that is not likely to happen or have impact, and 7 a risk very likely to occur and with massive and devastating impacts. See Appendix B for more details. To ensure legibility, the names of the global risks are abbreviated. Please see Appendix A for the full name and description.

Global Risks 2014



# Directory of Risks

<u>Category</u>	<u>Risk Category</u>	<u>Idx</u>	<u>Risk Subcategory</u>	<u>Risk Description</u>	<u>Index</u>	<u>Page</u>
1.0	Strategic	1	Partners	Licensing partners	1.1.1	8
			Competitors	Competitive pressure	1.2.1	10
			Global	Pandemic	1.3.1	12
2.0	Financial	1	Internal	Cash in bank accounts	2.1.1	13
				Short-term investments	2.1.2	16
				Defined Benefits Pension investments	2.1.3	20
				Defined Contributions Pension investments	2.1.4	22
				Financing / credit availability	2.1.5	24
				Internal control / cash fraud	2.1.6	29
		2	Market	Economic performance	2.2.1	30
				Inflation	2.2.2	33
				The Affordable Care Act	2.2.3	35
		3	Commodities	Foreign exchange	2.3.1	38
				Energy	2.3.2	42
		4	Insurance	Insurers' financial stability	2.4.1	45
				Property insurance	2.4.2	48
				Product liability insurance	2.4.3	50
				Product Recall	2.4.4	51
				Shipping / distribution	2.4.5	52
3.0	Operational	1	Value-Chain	Customers - credit risk	3.1.1	53
				Vendors - financial risk	3.1.2	55
				Supply Chain - continuity	3.1.3	56
				Third-Party partner financial obligations	3.1.4	57
				PBM fraud / GPO fraud	3.1.5	58
		2	Information Technology	Cybersecurity	3.2.1	59
				Disaster recovery / Backup systems	3.2.2	60

# Licensing/Business Development Partners

Risk Owner	Licensing and Business Development
Elements of Risk	<ul style="list-style-type: none"><li>• Partner's capabilities and abilities to execute its business plan and contractual commitments.</li><li>• Partner's financial creditworthiness staying as an ongoing business entity.</li><li>• Partner's legal/financial obligations and liability with other third parties.</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Operational and capability due diligence on partner.</li><li>• Financial due diligence on partner.</li><li>• Legal review and due diligence on key contracts with third parties.</li><li>• Review S&amp;P rating and D&amp;B reports, if available.</li><li>• In key alliances, Purdue representative attends partner's Board meeting.</li><li>• In key partnerships, Purdue participates at key steering committees with partner.</li><li>• In partnerships with significant investments by Purdue, Purdue has final decision-making power in steering committees.</li></ul>
Further Actions	None
Reporting Procedures	<ul style="list-style-type: none"><li>• Due diligence report prior to formation of partnership.</li><li>• Ongoing Board meeting reports, committee meeting minutes, and financial reports.</li><li>• Business update reports were issued on partners in which Purdue has significant equity investments, e.g. Infinity, Optherion, etc.</li></ul>

# Licensing/Business Development Partners

(Cont.)

- Transcept
- Shionogi
- Grunenthal
- Abbott / AbbVie
- Koltan
- Novelos
- Optherion
- Newron
- LTS
- PRA
- Quintiles / Innovex
- ElMindA
- IBM
- BD Rx (potential)
- Creative Science (potential)



# Competitive Pressure

Risk Owner	Purdue Corporate
Elements of Risk	<ul style="list-style-type: none"><li>• Key competitive entrants to the marketplace can significantly impact the value of Purdue's marketed products and pipeline development projects.</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Marketing (and Credit) issues daily newsflash recapping developments in pain management, pain research, Purdue competitors, and related therapeutic areas such as opioid induced constipation (OIC), insomnia, depression, and FDA regulations, etc.</li><li>• As part of the 10-year planning process, the pipeline projects are recertified annually to ensure their attractiveness from return on investments. The recertification process includes Marketing's review of competitive landscape and the payors' environment.</li><li>• Purdue staff regularly attend industry pain conferences such as American Pain Society.</li><li>• Licensing and Business Development staff regularly attend partnership conferences in which new technology and product development are presented.</li><li>• Corporate objectives: portfolio diversification, patents portfolio, focus on key competencies, in-licensing opportunities, and M&amp;A opportunities.</li></ul>
Further Actions	None
Reporting Procedures	<ul style="list-style-type: none"><li>• Routine newsflash from Marketing and Credit.</li><li>• Headline alerts from Credit.</li><li>• Purdue's 10-Year Plan and Recertification Report (published annually).</li><li>• Trip reports from Purdue staff from key conferences and business development meetings.</li></ul>

# Competitive Pressure

(Cont.)

- Pfizer (King/Alpharma)
- Abbott
- Teva (Cephalon)
- Acura
- Durect
- Endo
- Covidien
- BDSI
- Pain Therapeutics
- Collegium Pharma
- Nektar (OIC)
- AstraZeneca (OIC)
- Theravance (OIC)
- Progenics (OIC)

# Pandemic

Risk Owner	Environment, Health and Safety (EHS)
Elements of Risk	<ul style="list-style-type: none"><li>• Ebola Virus Disease</li><li>• Avian Influenza A (H7N9) Virus</li><li>• Middle East Respiratory Corona Virus (MERS-CoV)</li><li>• Seasonal Influenza</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• In response to the number and variety of emerging health issues of concern, the Pandemic Planning Committee has been re-configured to become the Purdue Outbreak Response Team (PORT). Team members representing Medical, Risk Management, Human Resources, EHS, Security and Finance are included. The group meets as required when specific threats are triggered.</li><li>• The Business Continuity and Pandemic Planning Team intranet page is being updated to reflect the new, broader mandate of the group, and is now entitled the <i>Business Continuity and Purdue Outbreak Response Team</i> site. The contents of the pages are being updated to reflect current business status.</li><li>• Employee communications is an important aspect of risk management. To that end, the <a href="#">Purdue Health Alert Information</a> site is available to all employees on the EHS intranet site as a source of information and helpful links to agencies and organizations involved with the management and control of emerging health issues.</li><li>• Employees have capabilities to work at a remote location (Totowa site) and in virtual offices (home or contracted location) for specific Business Continuity needs.</li></ul>
Further Actions	Updating of BCP documents continuing with business realignment.
Reporting Procedures	None



# Cash in Bank Accounts

Risk Owner	Treasurer
Elements of Risk	<ul style="list-style-type: none"> <li>• Bank creditworthiness</li> <li>• Preservation of principal</li> </ul>
Existing Risk Management Controls	<ul style="list-style-type: none"> <li>• Limit balances in bank accounts in US banks to \$250,000 (current limit of FDIC insurance)</li> <li>• Hold cash balances in depository banks with S&amp;P ratings of A- or above</li> <li>• Monitor credit ratings of major domestic banks</li> <li>• Monitor CDS of depository banks</li> <li>• Invest excess cash in short-term U.S. Treasury bills or Agencies or Tier 1 non-financial Commercial Paper or mutual funds which invest in short-term U.S. Treasury bills and Agencies (U.S. Treasury bills and Agencies are backed by the U.S. government)</li> </ul>
Further Actions	<ul style="list-style-type: none"> <li>• Monitor levels of Federal Deposit Insurance Corporation (FDIC) insurance coverage for US bank accounts</li> </ul>
Reporting Procedures	<ul style="list-style-type: none"> <li>• Risk review is performed annually</li> <li>• Bank credit rating report is published annually, or on as needed basis</li> </ul>

# Cash in Bank Accounts

(Cont.)

- All 57 bank accounts are with JP Morgan Chase.
- JP Morgan Chase has a S&P rating of A.
- Out of the top US banks, JP Morgan Chase has the 3rd lowest CDS rates. Lower rates generally indicate lower default risks.
- As of 6/30/14, total cash balances of \$10.3 million are in these bank accounts.
  - These cash generated earning credits which offset cash management fees.
  - Cash deposited at DDA accounts is covered by \$250,000 FDIC protection.

# Short-Term Investments

Risk Owner	Treasurer
Elements of Risk	<ul style="list-style-type: none"><li>• Credit</li><li>• Interest rate</li><li>• Custody</li><li>• Regulatory (e.g. new money market fund rules from SEC)</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• All short-term investments are in US Government/Agency securities or non-financial Tier 1 Commercial Paper or Money Market Funds that hold only US Government/Agency securities.</li><li>• All short-term investments have maturities less than 6 months.</li><li>• Short-term investment securities and shares in money market funds are held in accounts in the name of the specific Purdue entity.</li><li>• Unlike a bank depository account, these assets are not commingled with the banks' assets.</li><li>• The custodian banks who hold the securities and money market funds are considered stable and are rated by S&amp;P at [A-] or above.</li><li>• To optimize interest income under current market condition, target allocation is 75% T-bills and 25% money market funds. Allocation is fine-tuned depending on market conditions.</li></ul>
Further Actions	none
Reporting Procedures	<ul style="list-style-type: none"><li>• Short-term investments report is issued daily to Treasurer.</li><li>• Weekly cash forecast is performed to optimize interest income per the short-term investment policy.</li><li>• Risk review is performed annually.</li></ul>



# Short-Term Investments

(Cont.)

## Investments – Short-term: By Type

(\$MM)	12/31/2007		12/31/2008		12/31/2009		12/31/2010		12/31/2011		12/31/2012		12/31/2013		6/30/2014	
	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total
Short Term Investments:																
Treasury Securities	-	0%	48	9%	207	39%	466	79%	494	72%	786	93%	687	73%	858	73%
Government Sponsored Entities (GSEs)	-	0%	428	79%	257	50%	65	11%	144	21%	22	3%	41	4%	110	10%
Commercial Paper, CDs, etc.	457	88%	-	0%	-	0%	-	0%	-	0%	-	0%	180	19%	180	16%
OSRLP Securitiy Deposits w/BOA	11	2%	11	2%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
Qualified Settlement Trust (US Govt.)	53	10%	54	10%	54	10%	53	9%	43	6%	24	3%	17	2%	8	1%
Total	\$521	100%	\$541	100%	\$518	100%	584	100%	682	100%	832	100%	925	100%	1,156	100%
Portfolio Yield		4.8%		1.700%		0.400%		0.091%		0.010%		0.072%		0.051%		0.032%

- At year-end 2007 short-term investments consisted of high quality commercial paper and CDs.
- As the credit crisis grew in early 2008, investments were shifted to Treasuries and GSEs to reduce risk.
- In 2009, spreads between Treasuries and Agencies narrowed. As a result, investment allocation shifted towards Treasuries. This continues to be the trend until mid 2014.
- Currently, spreads between Treasuries and Agencies has widened, investment allocation has shifted towards Agencies. Also reallocated more funds to Tier 1 Non-Financial Commercial Paper.

# Short-Term Investments

(Cont.)

## Investments – Short-term: By Custodian

(SMM)	12/31/2007		12/31/2008		12/31/2009		12/31/2010		12/31/2011		12/31/2012		12/31/2013		6/30/2014	
	% of		% of		% of		% of		% of		% of		% of		% of	
Custodian/Trusts:	\$	Total	\$	Total	\$	Total	\$	Total	\$	Total	\$	Total	\$	Total	\$	Total
Bank of America - (securities held in name of Purdue entity)	\$97	19%	\$102	19%	\$67	13%	\$96	16%	\$0	0%	\$292	35%	\$361	39%	\$181	16%
Dreyfus MMF - (shares held in name of Purdue entity)	94	18%	19	4%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
Federated MMF - (shares held in name of Purdue entity)	1	0%	171	32%	160	31%	65	11%	144	21%	1	0%	0	0%	0	0%
Goldman Sachs MMF- (shares held in name of Purdue entity)	65	12%	115	21%	98	19%	60	10%	210	31%	21	3%	41	4%	110	10%
Western Assets MMF- (shares held in name of Purdue entity)	0	0%	0	0%	0	0%	0	0%	284	42%	144	17%	144	16%	497	43%
JPMorgan - (securities held in the name of Purdue entity)	-	0%	80	15%	140	27%	310	53%	0	0%	350	42%	362	39%	360	31%
Merrill Lynch - (securities held in the name of Purdue entity)	60	12%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
UBS - (shares held in the name of Purdue entity)	151	29%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
Smith Barney/Citigroup (QST)	53	10%	54	10%	53	10%	53	9%	43	6%	24	3%	17	2%	8	1%
Total	\$521	100%	\$541	100%	\$518	100%	\$584	100%	\$682	100%	\$832	100%	\$925	100%	\$1,156	100%

- During 2008, short-term investments were moved away from Merrill Lynch and UBS to more financially stable broker/dealers. JP Morgan was added.
- Western Assets runs one of the larger, higher yielding treasury only money market funds.

# Short-Term Investments

(Cont.)

## New SEC Money Market Fund Reforms: implementation date of October 14, 2016

### ■ New Definitions

- Government Fund – Is a fund that invests 99.5% of their total assets in cash, government securities or repurchase agreements collateralized by government securities. These funds are to be exempt from these new rules.
- Retail Funds – Are Prime and Tax-Exempt funds designed to limit beneficial owners to natural persons, meaning individual investors, or human beings. These funds may look through to the end investor to determine whether beneficial ownership is limited to natural persons.

### ■ Floating rate NAV – apply only to Institutional Prime or Tax-Exempt funds

- Daily share prices would fluctuate to the nearest basis point (0.01%)
- Fluctuation would be based on the performance of the underlying holdings, just like any other fund

### ■ Redemption Gates and Liquidity Fees when a fund crosses a liquidity threshold (10%/30% weekly liquidity or 1%/2% liquidity fees) – Prime and Tax-Exempt funds only

- Impose redemption “gates” (not permit withdrawals) for up to 10 days on withdrawals below fund’s weekly liquidity thresholds
- Allow funds to charge up to 2% (as set by the fund’s board) on withdrawals below fund’s weekly liquidity thresholds
- Require notification and disclosure of liquidity trigger and actions
- Government funds can opt-in



# Defined Benefits Pension Investments

Risk Owner	Pension Investment Committee
Elements of Risk	<ul style="list-style-type: none"> <li>• Funding target: meet liability projection</li> <li>• Performance of investments</li> <li>• Fiduciary responsibilities</li> <li>• Regulatory (e.g. ERISA and DOL) compliance</li> </ul>
Existing Risk Management Controls	<ul style="list-style-type: none"> <li>• With contribution and return, Purdue targets to reach <math>\geq 95\%</math> ERISA funding target.</li> <li>• Assume a realistic long-term investment return expectation @ 7% p.a.</li> <li>• Routine performance monitoring and benchmarking of investments.</li> <li>• Utilize indexing for asset classes where active management yields little value.</li> <li>• Schedule of review meetings with SEI – investment manager, along with actuary.</li> <li>• SEI as Purdue's co-fiduciary – asset liability study and asset allocation modeling.</li> <li>• Hired an 3<sup>rd</sup>-party consultant to critique Purdue's pension management process.</li> <li>• Provide annual training for the Pension Investment Committee</li> </ul>
Further Actions	<ul style="list-style-type: none"> <li>• Consider utilizing 3<sup>rd</sup>-party consultant in a review process once every 3-5 years</li> </ul>
Reporting Procedures	<ul style="list-style-type: none"> <li>• Quarterly pension plan performance report</li> <li>• SEI presentation to pension investment committee</li> <li>• Routine pension investment committee meeting minutes</li> <li>• Pension actuary reports</li> <li>• 3<sup>rd</sup>-party consultant report</li> </ul>

# Defined Benefits Pension Investments

(Cont.)

Total Portfolio (\$MMs)	12/31/2007	% of total	12/31/2008	% of total	12/31/2009	% of total	12/31/2010	% of total	12/31/2011	% of total	12/31/2012	% of total	6/30/2013	% of total
Small/Mid Cap Equity	9.4		7.3		-		6.7		6.3		8.9		10.9	
Disciplined Equity	36.2		27.5		-		-		-		-		-	
Large Cap Index	-		-		59.3		52.9		52.8		74.9		76.8	
Total U.S. Equity	45.6		34.8		59.3		59.6		59.1		83.8		87.7	
Emerging Markets Equity Index	1.4		1.0		1.9		-		8.0		10.0		12.2	
International Developed Equity	13.4		9.8		15.9		-		-		-		-	
International Developed Index	-		-		-		28.7		19.7		30.4		35.2	
Total International Equity	14.8		10.8		17.8		28.7		27.8		40.4		47.4	
<b>Total Equity</b>	<b>60.4</b>	40%	<b>45.5</b>	38%	<b>77.2</b>	45%	<b>88.3</b>	44%	<b>86.9</b>	43%	<b>124.2</b>	52%	<b>135.1</b>	55%
Emerging Markets Debt	7.6		6.4		8.9		8.3		8.3		9.1		11.1	
High Yield Bond	7.4		5.6		9.1		17.0		14.7		18.0		16.5	
Core Fixed/Ext. Dur./Treasury	51.9		41.3		55.7		64.2		72.1		87.1		75.1	
Opportunistic Income	-		-		-		-		-		-		9.6	
<b>Total Fixed Income</b>	<b>66.9</b>	44%	<b>53.2</b>	45%	<b>73.7</b>	43%	<b>89.5</b>	45%	<b>95.1</b>	47%	<b>114.2</b>	48%	<b>112.3</b>	45%
<b>Hedge Fund-of-Funds</b>	<b>24.6</b>	16%	<b>19.9</b>	17%	<b>20.5</b>	12%	<b>20.8</b>	10%	<b>19.6</b>	10%	-	0%	-	0%
Accrued Income	0.3		0.1		0.3		0.3		0.3		-		-	
<b>Total Portfolio (PPLP &amp; PFL)</b>	<b>152.2</b>	100%	<b>118.8</b>	100%	<b>171.7</b>	100%	<b>198.9</b>	100%	<b>202.0</b>	100%	<b>238.4</b>	100%	<b>247.4</b>	100%

- The plans are managed by SEI which acts as a manager of individual fund managers. The target asset allocation for the PPLP plan is Equity – 56%; Fixed Income – 44%. The target asset allocation for the PFL plan is Equity – 0%; Fixed Income – 100%.
- In September 2011, per asset-allocation study and performance review of the SEI Hedge Fund, Purdue Investment Committee implemented the recommendation of exiting the SEI Hedge Fund and investing its assets in existing equities and fixed income funds.
- About 50% of the PPLP plan assets are indexed.
- In late 2011, Purdue Investment Committee implemented the recommendation to employ liability-driven investing (LDI) for the PFL plan, which will help to minimize volatility of its ERISA funding ratio.
- In 2013 June year-to-date, Purdue had contributed \$5.8 million to the pension plans. 2013 full-year budget of cash funding is \$10.7 million.
- Under the ERISA (employee retirement income security act), the pension plans are funded approximately in the 95% range (APTAP).
- 2013 June month-end, PPLP portfolio's 1-year return was 11.5%. In beginning of 2013, Plans assumed a 7% return for full-year 2013.

# Defined Contribution (401k) Investments

Risk Owner	Pension Investment Committee
Elements of Risk	<ul style="list-style-type: none"><li>• Costs of plan operation and investments are competitive</li><li>• Appropriate selection of investment options for employees</li><li>• Fiduciary responsibilities</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Routine performance monitoring and benchmarking of investments</li><li>• Periodic deep-dive review of funds in the watch list</li><li>• Benchmarking costs of plan operation and investments</li><li>• Schedule of review meeting with Fidelity Investments</li><li>• SEI serves as an independent consultant providing routine (once-a-year) review of 401(k) plan performance</li><li>• Fidelity Investments issues communications to employees on key developments</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• None</li></ul>
Reporting Procedures	<ul style="list-style-type: none"><li>• Quarterly 401(k) plan performance report</li><li>• Fidelity Investments reports to Pension Investment Committee</li><li>• SEI presentation on 401(k) plan review to pension investment committee</li><li>• Periodic deep-drive review of funds</li><li>• Routine pension investment committee meeting minutes</li></ul>



# Defined Contribution (401k) Investments

(Cont.)

					Fund Performance								YTD % Rank	3-Yr % Rank
List	Fund Name	Morningstar Category	Balances (\$MMs)		6/30/2013	Annualized Return				MS Rating		Change B/(W)	in Category Lower Better	in Category Lower Better
			PPLP	% of Total	YTD	1-Year	3-Year	5-Year	10-Year	Current	Prior			
U.S. Equities			\$ 148.83	43.3%										
21	Fidelity Spartan 500 Index Inv	US OE Large Blend	\$ 24.58	7.1%	13.8%	20.5%	18.4%	7.0%	7.2%	UUUU	UUUU		43%	19%
4	Fidelity Contrafund K	US OE Large Growth	\$ 46.83	13.6%	11.5%	16.9%	16.8%	6.1%	10.0%	UUUU	UUUUU	(1)	40%	45%
25	Dodge & Cox Stock	US OE Large Value	\$ 30.28	8.8%	17.6%	30.6%	19.2%	6.7%	8.0%	UUU	UUU		9%	10%
31	AllianzGI NFJ Dividend Value Instl	US OE Large Value	\$ 3.57	1.0%	13.4%	22.3%	18.1%	4.2%	8.1%	UUU	UUU		75%	26%
26	Vanguard Extended Market Idx Signal	US OE Mid-Cap Blend	\$ 5.99	1.7%	15.7%	26.0%	19.7%	9.0%	10.5%	UUU	UUU		34%	18%
28	Neuberger Berman Genesis Instl	US OE Mid-Cap Growth	\$ 32.27	9.4%	13.0%	20.1%	17.5%	5.4%	11.5%	UUUU	UUUU		48%	42%
24	Managers Cadence Emerging Companies I	US OE Small Growth	\$ 1.70	0.5%	17.9%	26.7%	25.9%	11.1%	9.2%	UUUU	UUUU		29%	1%
33	Northern Small Cap Value	US OE Small Value	\$ 3.61	1.0%	15.1%	24.0%	18.4%	9.3%	10.3%	UUUU	UUUU		60%	31%
Foreign Equities			\$ 26.09	7.6%										
27	Vanguard Total Intl Stock Index Inv	US OE Foreign Large Blend	\$ 3.71	1.1%	-0.5%	13.5%	8.2%	-0.9%	8.3%	UUU	UUUU	(1)	89%	78%
7	Fidelity Diversified International K	US OE Foreign Large Blend	\$ 20.60	6.0%	5.0%	18.5%	11.1%	-0.9%	8.1%	UUU	UUUU	(1)	13%	18%
34	Oppenheimer Developing Markets Y	US OE Diversified Emerging Mkts	\$ 1.78	0.5%	-3.8%	7.9%	8.1%	5.5%	18.1%	UUUUU	UUUUU		19%	5%
Fixed Income			\$ 73.86	21.5%										
36	Vanguard Prime Money Market Instl	US Money Market Taxable	\$ 33.21	9.7%	0.0%	0.1%	0.1%	0.5%	1.9%					
20	Fidelity Managed Income	US Money Market Taxable	\$ 14.96	4.4%	0.6%	1.1%	1.3%	1.5%	2.8%					
22	Fidelity Spartan US Bond Idx Investor	US OE Intermediate-Term Bond	\$ 12.24	3.6%	-2.6%	-1.0%	3.3%	4.9%	4.2%	UUU	UUU		58%	77%
23	PIMCO Total Return Instl	US OE Intermediate-Term Bond	\$ 11.85	3.4%	-3.0%	1.2%	4.7%	7.3%	6.0%	UUUUU	UUUUU		81%	34%
37	Fidelity High Income	US OE High Yield Bond	\$ 1.59	0.5%	0.8%	8.2%	9.7%	9.4%	8.2%	UUUU	UUUU		64%	46%
Asset Allocation			\$ 24.38	7.1%										
2	Fidelity Puritan K	US OE Moderate Allocation	\$ 15.24	4.4%	6.5%	12.2%	12.6%	6.4%	7.0%	UUUU	UUUU		43%	21%
6	Fidelity Asset Manager 50%	US OE Moderate Allocation	\$ 9.14	2.7%	3.9%	9.4%	9.9%	5.8%	5.3%	UUU	UUU		79%	74%
Freedom Fund Family			\$ 70.82	20.6%										
8	Fidelity Freedom Income	US OE Retirement Income	\$ 1.22	0.4%	0.5%	3.5%	5.2%	4.0%	4.0%	UUU	UU	+1	64%	81%
9	Fidelity Freedom 2000	US OE Target Date 2000-2010	\$ 0.51	0.1%	0.5%	3.5%	5.3%	3.8%	4.1%	UU	UU		79%	94%
10	Fidelity Freedom 2010	US OE Target Date 2000-2010	\$ 3.10	0.9%	2.8%	7.9%	8.9%	4.4%	5.5%	UUU	UUU		21%	35%
11	Fidelity Freedom 2015	US OE Target Date 2011-2015	\$ 6.61	1.9%	2.9%	8.2%	9.1%	4.2%		UUU	UUU		32%	49%
12	Fidelity Freedom 2020	US OE Target Date 2016-2020	\$ 12.10	3.5%	3.4%	9.2%	10.1%	3.9%	6.1%	UUU	UUU		49%	47%
13	Fidelity Freedom 2025	US OE Target Date 2021-2025	\$ 10.26	3.0%	4.6%	11.3%	11.2%	4.1%		UUU	UUU		58%	56%
14	Fidelity Freedom 2030	US OE Target Date 2026-2030	\$ 14.02	4.1%	5.1%	12.0%	11.6%	3.5%	6.3%	UUU	UUU		55%	55%
15	Fidelity Freedom 2035	US OE Target Date 2031-2035	\$ 9.70	2.8%	6.2%	13.7%	12.2%	3.6%		UU	UUU	(1)	63%	73%
16	Fidelity Freedom 2040	US OE Target Date 2036-2040	\$ 8.12	2.4%	6.3%	13.9%	12.4%	3.4%	6.5%	UUU	UUU		61%	63%
17	Fidelity Freedom 2045	US OE Target Date 2041-2045	\$ 3.79	1.1%	6.6%	14.5%	12.6%	3.5%		UUU	UUU		66%	84%
18	Fidelity Freedom 2050	US OE Target Date 2046-2050	\$ 1.28	0.4%	6.7%	14.6%	12.8%	3.1%		UU	UU		68%	69%
35	Fidelity Freedom 2055	US OE Target Date 2051+	\$ 0.12	0.0%	7.0%	15.2%							77%	

● Frozen fund

12/1/2014

Total Balances: \$ 343.98 100.0%

Risk Management: Annual Review

PUBLICLY FILED PER STIPULATION [ECF 2140]

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# Financing / Credit Availability

Risk Owner	Chief Financial Officer / Treasurer
Elements of Risk	<ul style="list-style-type: none"> <li>• Secure credit capacity for varying needs of working capital</li> <li>• Secure credit capacity for letters of credit, e.g. insurance, clinical trials, etc.</li> <li>• Prepare credit availability, monitor cost of borrowing, and maintain relationship with lenders; when appropriate, provide financing options to the Board in the event cash is needed for licensing or acquisition opportunities.</li> </ul>
Existing Risk Management Controls	<ul style="list-style-type: none"> <li>• Forecast working capital needs – long-term, medium-term, and short-term cash flows forecasts.</li> <li>• Benchmark working capital performance</li> <li>• In Oct 2012, extended Purdue's \$45mm line of credit (cash-collateralized in Treasuries) with Bank of America for 3 years, while locked in investment-grade pricing. Next renewal time is October 2015.</li> <li>• Ongoing monitoring of credit markets, e.g. Loan Pricing Conference, Reuters' Gold Sheet, AFP website, and industry surveys.</li> <li>• Annual business update meetings with two relationship banks: Bank of America and JP Morgan Chase.</li> </ul>
Further Actions	<ul style="list-style-type: none"> <li>• None</li> </ul>
Reporting Procedures	<ul style="list-style-type: none"> <li>• Publish long-term, medium-term, and short-term cash flows forecasts.</li> <li>• Provide credit markets snapshot, once-a-year or as needed basis.</li> <li>• Ongoing monitor of utilization levels of line of credit.</li> <li>• Prepare business update presentation and provide meeting minutes on business update meetings with banks.</li> </ul>

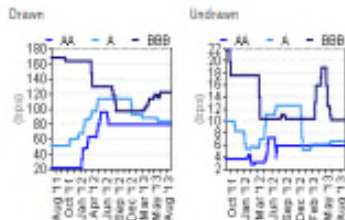
# Financing / Credit Availability

(Cont.)

For Creditworthiness Profile: Between BBB- and BB

Multi-Year Bank Loans	BBB-	BB	Average of Two
Upfront Fee	n/a	50-75 bps	50-75 bps
Undrawn Pricing (average)	25 bps	50 bps	38 bps
Drawn Pricing (average)	LIBOR + 156 bps	LIBOR + 258 bps	LIBOR + 207 bps

364-DAY



Pricing Grid -- 364-day Underlying Deals

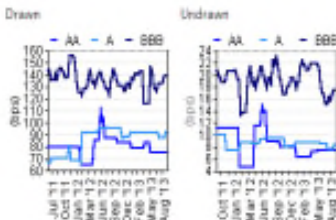
	Avg Undrawn (bps)	Min Undrawn (bps)	Max Undrawn (bps)	Avg Drawn (bps)	Avg Drawn/fee (bps)	Fac. Size (\$Mils)	Avg. Sales (\$Mils)	Tenor (Mos)	Drawn StDev	Drawn StDev w/usage	Undrawn StDev
AA	5.75	4.00	7.50	78.27	78.27	2,513.33	7,972.00	12.00	20.30	20.30	2.47
A	6.50	5.00	8.00	83.33	83.33	2,300.00	9,300.00	12.00	7.22	7.22	2.12
BBB	10.00	10.00	10.00	120.83	120.83	800.00	10,960.35	11.67	7.22	7.22	

Pricing Grid -- Multi-year Underlying Deals

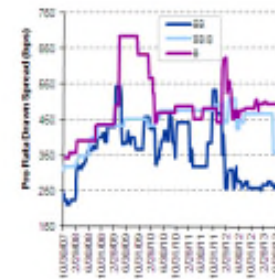
	Avg Undrawn (bps)	Min Undrawn (bps)	Max Undrawn (bps)	Avg Drawn (bps)	Avg Drawn/fee (bps)	Fac. Size (\$Mils)	Avg. Sales (\$Mils)	Tenor (Mos)	Drawn StDev	Drawn StDev w/usage	Undrawn StDev
AA	7.50	5.00	10.00	75.00	75.00	1,153.33		51.33	12.50	12.50	3.54
A+	6.00	4.00	8.00	76.62	76.62	2,435.00	22,633.98	60.00	7.78	7.78	2.00
A	8.33	7.50	10.00	91.67	91.67	1,333.33	18,815.09	60.00	7.22	7.22	1.44
A-	10.00	10.00	10.00	100.00	100.00	1,300.00	1,300.00	58.00	0.00	0.00	0.00
BBB+	15.00	12.00	18.00	118.12	118.12	1,825.00	10,447.20	60.00	8.00	8.00	3.19
BBB	17.50	17.50	17.50	138.75	138.75	1,450.00	13,209.05	60.00	12.33	12.33	0.00
BBB-	25.00	22.50	30.00	156.25	156.25	931.25	5,365.34	60.00	12.50	12.50	4.33

Note: Due to the lack of adequate deal flow, the A+ segment of the grid will not be posted until such time when there are sufficient deals to report.

MULTI-YEAR



PRO RATA



Pricing Grid -- Pro Rata Underlying Deals

	Avg Undrawn (bps)	Avg Drawn - Primary (bps)	Avg Spread to 3-Yr - Secondary (bps)	Min Drawn - Primary (bps)	Max Drawn - Primary (bps)	Avg. Upfront Fee/ Avg. Old (bps)	Avg. Fac. Size (\$Mils)	Avg. Sales (\$Mils)	Tenor (Mos)	Drawn StDev	Undrawn StDev
BB	48.67	258.33	N/A	250.00	275.00	50.00	966.67	4,461.91	61.00	14.43	5.77
BB-B	50.00	350.00	N/A	325.00	375.00	N/A	266.67	1,411.66	60.00	25.00	N/A
B	N/A	468.75	N/A	425.00	550.00	N/A	36.25	200.00	60.00	55.43	N/A

Pricing Grid -- Term Loan B Underlying Deals

	Avg Drawn - Primary (bps)	Avg Spread to 3-Yr - Old (bps)	Avg Spread to 3-Yr - Secondary (bps)	Min Drawn - Primary (bps)	Max Drawn - Primary (bps)	Avg. Upfront Fee/ Avg. Old (bps)	Avg. Fac. Size (\$Mils)	Avg. Sales (\$Mils)	Tenor (Mos)	Drawn StDev
BB	287.50	307.58	292.72	275.00	300.00	75.00	770.00	1,812.60	75.00	14.43
BB-B	337.50	353.19	338.22	325.00	350.00	43.75	650.00	338.27	84.25	14.43
B	456.25	501.49	479.26	375.00	525.00	125.00	292.50	265.43	75.00	68.84



# Financing / Credit Availability

Outstanding Letters of Credit, 9/30/2014

## BANK OF AMERICA - LETTERS OF CREDIT (issued from credit line)

9/30/2014

### PURDUE PHARMA L.P.

B of A Number	Chase Number	Beneficiary	Note	Type	Value Date	Expiry Date	Final Expiration	Amount	Notification Period	Non-renewal Notification
88005629	T239009	Liberty Mutual Insurance Company	(1)	Irrev Sby	3/30/2013	3/30/2014	Evergreen	1,170,000.00	60 days	1/29/2014
88005629	T617521	Liberty Mutual Insurance Company	(1)	Irrev Sby	3/30/2013	3/30/2014	Evergreen	490,000.00	60 days	1/29/2014
88005628	T343343	Liberty Mutual Insurance Company	(4)	Irrev Sby	3/30/2013	3/30/2014	Evergreen	10,000,000.00	60 days	1/29/2014
88046126	NA	Insurance Company Of The State Of PA	(5)	Irrev Sby	10/1/2013	10/1/2014	Evergreen	2,500,000.00	60 days	8/2/2014
<b>Total</b>								<b>14,160,000.00</b>		

Number	Beneficiary	Type	Value Date	Expiry Date	Final Expiration	Amount	Notification Period	Non-renewal Notification
88005652	T311930 Zurich American Insurance Company	(1) Irrev Sby	3/31/2013	3/31/2014	Evergreen	500,000.00	30 days	3/1/2014
88005641	T313430 LumbermansMutual Casualty Company	(1) Irrev Sby	3/31/2013	3/31/2014	Evergreen	250,000.00	60 days	1/30/2014
<b>Total</b>							<b>750,000.00</b>	

### THE PF LABORATORIES, INC. Account No. 128061662

Number	Beneficiary	Type	Value Date	Expiry Date	Final Expiration	Amount	Notification Period	Non-renewal Notification
88044678	State of Wyoming	(2) Annual	6/11/2013	6/30/2014	6/30/2014	100,000.00	60	5/1/2014
							<b>100,000.00</b>	

### PURDUE PHARMACEUTICALS L.P. Account No. 020915993

Number	Beneficiary	Type	Value Date	Expiry Date	Final Expiration	Amount	Notification Period	Non-renewal Notification
88044677	State of Wyoming	(2) Annual	6/11/2013	6/30/2014	6/30/2014	100,000.00	60	5/1/2014
88034023	North Carolina Department of Environment and Natural Resources	(3) Annual	4/30/2013	4/30/2014	Evergreen	121,200.00	60	3/1/2014
							<b>221,200.00</b>	

### PURDUE PHARMA MANUFACTURING L.P.

Number	Beneficiary	Type	Value Date	Expiry Date	Final Expiration	Amount	Notification Period	Non-renewal Notification
88101508	County of Durham	(6) Annual	1/27/2014	1/27/2015	Evergreen	100,000.00	120	9/29/2014
<b>Grand Total</b>								<b>15,331,200.00</b>

#### Notes:

- (1) Security for incurred but not yet paid workers comp and auto liability claims
- (2) Required security to be a distributor in the state of WY
- (3) Required security to be posted for underground tank in NC
- (4) Collateral for \$10 million US products liability insurance (fronted)
- (5) Collateral for \$10 million non-US products liability and clinical trials insurance (fronted)
- (6) Collateral for soil erosion permit

Total Revolver	45,000,000.00
Total Borrowed	0.00
Total LOC	15,331,200.00
Total Unused Revolver	29,668,800.00

# Financing / Credit Availability

## Cash Conversion Cycle (CCC)

Cash Conversion Cycle Data as of 12/31/2012			(Average) U.S. Pharma	(Average) S&P 500
		Purdue		
Days Inventory Outstanding (DIO)	+	(c) 121.8	145.2	71.7
Days Sales Outstanding (DSO)	+	34.7	66.9	49.9
Days Payable Outstanding (DPO)	-	(a) 38.8	78.1	63.1
<b>Cash Conversion Cycle (CCC)</b>	<b>=</b>	<b>117.7</b>	<b>134.0</b>	<b>58.5</b>

Other Working Capital Ratios				
Current Ratio		1.4	2.9	2.0
Quick Ratio		1.0	2.3	1.3
Working Capital as % of Sales (peers @ median)		13%	36%	12%
Cash & Equivalents (unrestricted) @ Average Month's Sales		(b) 3.7	2.1	1.2

### Notes

U.S. Pharma is defined as:

- 1) Industry Classifications: Biotechnology (Primary) OR Pharmaceuticals (Primary)
  - 2) Total Revenue [Latest 12-Month] (\$USDmm, Historical rate): is greater than \$500mm.
  - 3) EBITDA [Latest 12-Month] (\$USDmm, Historical rate): is greater than \$0mm. (i.e. profitable)
  - 4) Geographic Locations: United States of America (Primary)
- Total 33 companies selected by Capital IQ in 2013 report.

For Purdue, DPO is published by Finance from internal reporting. DIO is calculated by standard formula. Purdue DSO is from internal financial reporting. Excluded rebates.

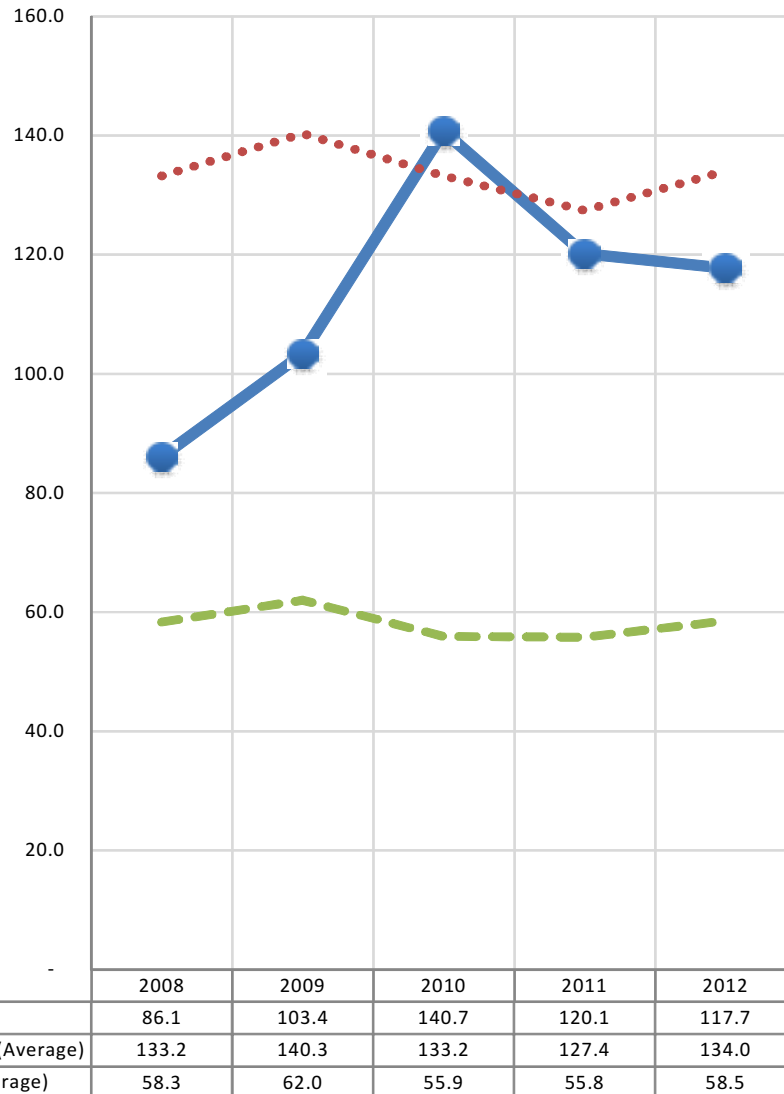
- (a) Industry's DPO average is not comparable to Purdue because Purdue's cost of goods is de minimis comparing with others. Purdue number excluded rebates DPO.
- (b) Purdue maintains cash at 3 months of net sales for working capital uses. Other companies might have short-term bank credit facilities for working capital uses; thus, they can maintain lower cash balances.
- (c) Purdue's DIO on finished goods was 112 days.

2.1.5 ♦ Financial ♦ Internal

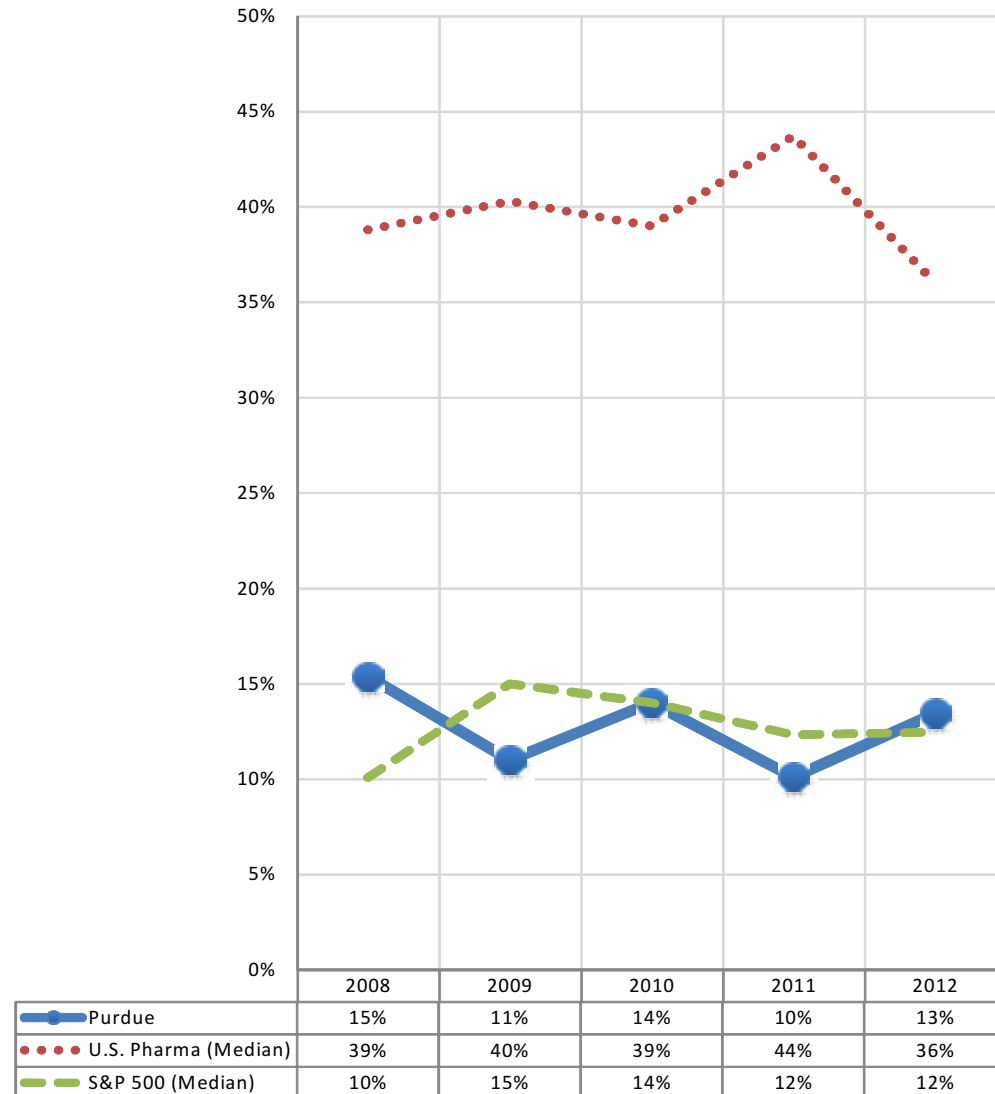
# Financing / Credit Availability

Cash Conversion Cycle ♦ Working Capital as % of Net Sales

Cash Conversion Cycle



Working Capital as % of Net Sales





# Internal Control / Cash Fraud

Risk Owner	Controller
Elements of Risk	<ul style="list-style-type: none"><li>• Fraudulent wires</li><li>• Fraudulent ACH debits</li><li>• Forged checks</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Positive pay ensures checks only clear for amount, check number and vendor of a check issued by Purdue; no check cashing capability at bank branches.</li><li>• Daily review of all wires hitting all our bank accounts (performed by Treasury)</li><li>• Monthly bank account reconciliation by Accounting</li><li>• Secured electronic payment approval process in SAP via biometric security with fingerprint authentication</li><li>• Separate approvers required for all third-party wire transfers in Treasury Workstation (total 2 people are required)</li><li>• Newly implemented PaySource process with integrated payable and payment processes, with enhanced controls to ensure proper payment approval and secure transmission of payment information to bank.</li><li>• Triennial review of list of authorized signers recorded at bank (performed by Treasury)</li><li>• \$15mm Crime insurance (worldwide)</li><li>• Segregation of duties between invoice processing, vendor master maintenance and payment processing.</li><li>• Monthly reviews of changes to vendor master, annual cleansing of vendor master, annual fraud audit and software to detect duplicate payments.</li><li>• ACH debit blocks on all DDA bank accounts.</li><li>• Check blocks on all non- check bank accounts.</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• None</li></ul>
Reporting Procedures	Annual review

# Economic Performance

Risk Owner	Chief Financial Officer
Elements of Risk	<ul style="list-style-type: none"> <li>General economic performance (whether favorable or unfavorable) affects pharmaceutical industry. (source: IMS)</li> <li>Economic performance impacts Purdue's operations such as distributors, business partners, customers, suppliers, credit providers, pension funding, etc.</li> </ul>
Existing Risk Management Controls	<ul style="list-style-type: none"> <li>Using financial instruments to mitigate risk of economic performance is very costly.</li> <li>Pharmaceutical sales are generally believed less dependent on economic cycles than other cyclical industries while the magnitude of impacts, if any, are generally less severe. However, the recent economic recession is changing this generally assumption—in the last 24 months, there was a strong correlation between pharmaceutical sales and consumer confidence. However, the correlation has ended at the end of 2012 when consumer confidence remains high but medical utilization continues at depressed levels.</li> <li>Significant economic news, economic indicators, and public-domain economic projections are shared with key finance executives so financial assumptions can be fine-tuned if necessary.</li> <li>Closely monitor/manage working capital (accounts receivable and accounts payable)</li> <li>Quarterly reports of key economic and financial indicators are published. Data come from Federal Reserve, Capital IQ, and other sources.</li> </ul>
Further Actions	<ul style="list-style-type: none"> <li>None</li> </ul>
Reporting Procedures	<ul style="list-style-type: none"> <li>Significant economic news, economic indicators, and public-domain economic projections are shared with key finance executives, as needed basis.</li> <li>Quarterly reports of key economic and financial indicators are published to the CFO.</li> </ul>

# Economic Performance

(cont.)

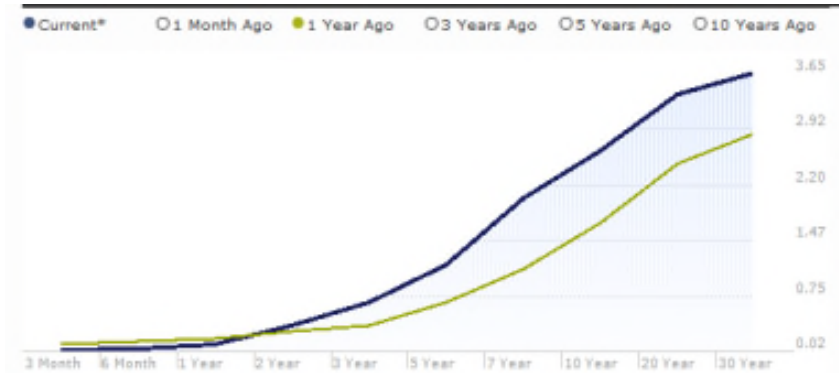


Microsoft Excel  
Worksheet

2013-Q2 Economic Indicator Report is attached.

Economic Indicator	2011 A	2012 A	2013 F	2014 F
Real GDP (YoY Δ %)	1.8%	2.8%	1.6%	2.8%
CPI (YoY Δ %)	3.2%	2.1%	1.5%	1.6%
Interest Rate	2011 A	2012 A	2013 F	2014 F
Fed Funds	0 - 0.25%	0 - 0.25%	0 - 0.25%	0 - 0.25%
3-Month T-Bill	0.01%	0.04%	0.02%	0.10%
3-Month LIBOR	0.58%	0.31%	0.25%	0.40%
2-Year T-Note	0.24%	0.25%	0.50%	1.25%
10-Year T-Note	1.88%	1.75%	3.00%	4.00%
30-Year T-Bond	2.90%	2.95%	3.85%	4.80%
Foreign Exchange	Sep-2013 F	Dec-2013 F	Jun-2014 F	Dec-2014 F
Euro-USD	1.30	1.25	1.23	1.22
USD-JPY	103	105	106	108
GBP-USD	1.55	1.51	1.52	1.53
USD-CAD	1.05	1.04	1.04	1.03

## U.S. Treasury Yield Curve



### U.S. Treasury Bond Yields

Maturity	Current*	Yesterday	Last Week	Last Month
3 Month	0.02	0.02	0.01	0.03
6 Month	0.05	0.05	0.04	0.06
2 Year	0.36	0.35	0.34	0.40
3 Year	0.66	0.67	0.67	0.80
5 Year	1.14	1.44	1.43	1.66
10 Year	2.63	2.67	2.69	2.82
20 Year	3.37	3.40	3.46	3.55
30 Year	3.65	3.67	3.75	3.80

Data as of last close \*

### Morningstar Government Bond Index

Name	1-Week	YTD	4-Week	13-Week	1-Year	3-Year	5-Year
US Govt Bond	0.38	-1.97	1.08	0.64	-1.84	2.34	4.14
Intermediate US Govt Bond	0.34	-1.81	1.49	1.07	-1.63	2.51	4.85
Long-Term US Govt Bond	1.30	-7.13	2.47	0.43	-7.12	4.01	6.43
Short-Term US Govt Bond	0.06	0.13	0.37	0.50	0.25	0.94	2.21

Data as of 09-25-13

Source: Morningstar

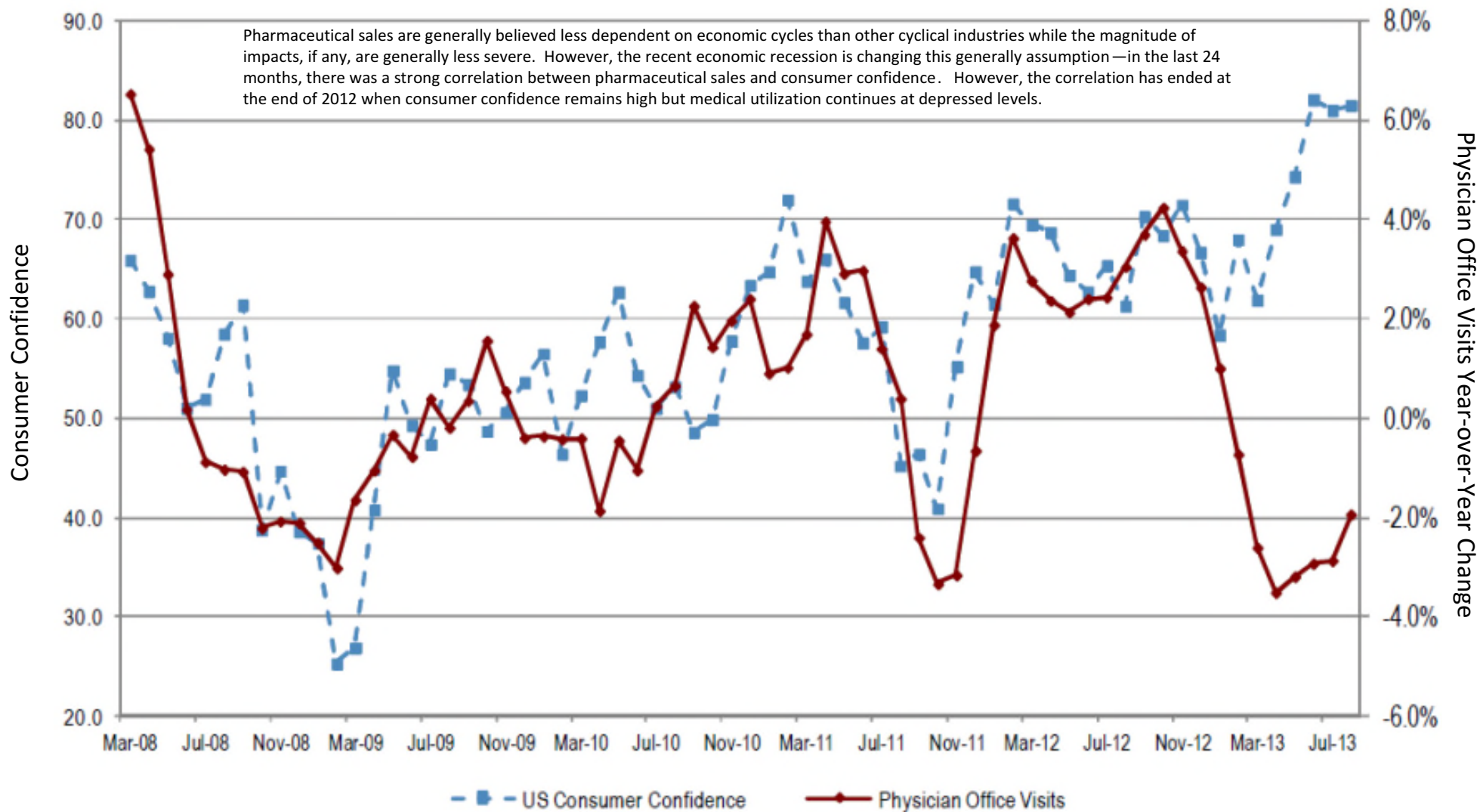
2.2.1 ♦ Financial ♦ Market

# Economic Performance

(cont.)



2013-September, J.P. Morgan Med Utilization Tracker Report is attached.





# Inflation

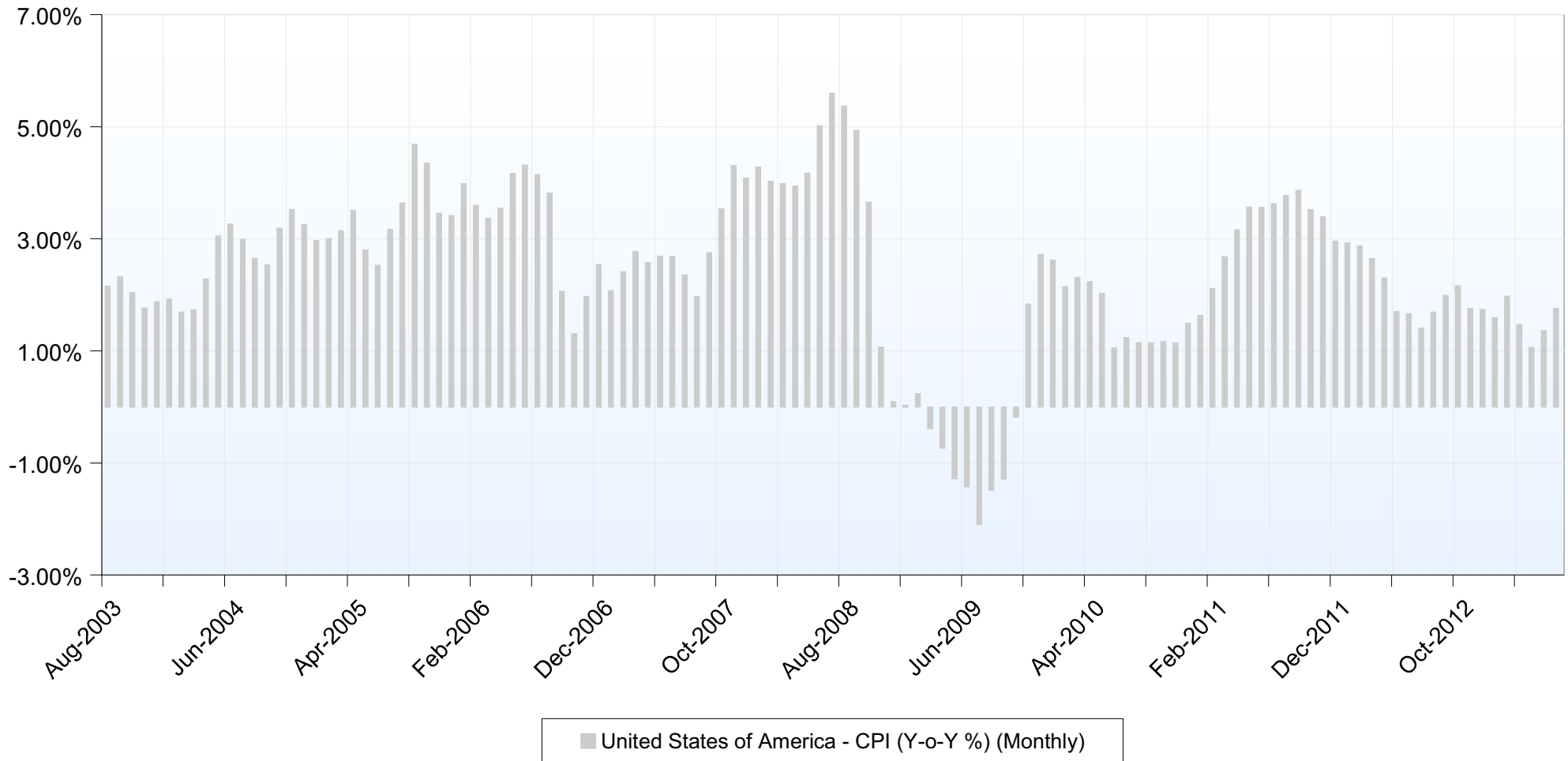


Risk Owner	Chief Financial Officer
Elements of Risk	<ul style="list-style-type: none"> <li>• Inflation affects Purdue's cost of doing business, e.g. labor costs, cost of raw materials, interest rate movement, etc.</li> <li>• Cost of purchases in business contracts is often tied to an inflation index such as CPI or PPI.</li> <li>• Actual inflation contributes to budget variance, if actual inflation materially varies from budget assumption.</li> </ul>
Existing Risk Management Controls	<ul style="list-style-type: none"> <li>• Using financial instruments to mitigate risk of inflation is very costly.</li> <li>• Significant inflation news and public-domain inflation projections are shared with key finance executives so financial assumptions can be fine-tuned if necessary.</li> <li>• Maximize use of fixed cost rate in business contracts.</li> <li>• Monitor third-party outlook of U.S. inflation. (A recent copy is attached as a reference.)</li> <li>• Use third-party analytical forecasts to support budgetary assumptions.</li> </ul>
Further Actions	None
Reporting Procedures	<ul style="list-style-type: none"> <li>• Significant inflation news and public-domain inflation projections are shared with key finance executives, as needed basis.</li> </ul>

# Inflation

## Consumer Price Index

United States of America - CPI (Y-o-Y %) (Monthly)



# The Affordable Care Act

Risk Owner	Purdue Corporate
Elements of Risk	<ul style="list-style-type: none"><li>• Health Care Reform requires increased rebates and other fees on pharmaceutical industry starting in 2010. Health Care Reform also includes Quality of Care standards/metrics and incentives in Government programs as well as provisions for Health Insurance Exchanges run by the individual states starting in 2014. Pharmacy Benefit Managers will play a major role in these areas.</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Managed Care organization and Rebate Pricing Committee (RPC) to develop strategies to meet challenges of Health Care Reform. RPC reports to Commercial Products Portfolio Committee.</li><li>• Working with Purdue's Law Department, continue ongoing review of rules, interpretation, and development of the Health Care Reform Act.</li><li>• Working with Purdue's Rebate/Reimbursement Group to include the financial impact into the budget financials.</li><li>• Monitor reports and analyses from equity analysts, market researchers, and Congressional Budget Offices for latest forecasts.</li></ul>
Further Actions	None
Reporting Procedures	<ul style="list-style-type: none"><li>• Financial impact is part of the budgeting and financial reporting process.</li></ul>

# The Affordable Care Act

(Cont.)

## ■ Health Care Reform enacted in early 2010 increased rebates and other fees on the pharmaceutical industry.

### Medicare Part D:

- Effective January 1, 2011, manufacturers are required to pay 50% of the cost of a patient's prescription while in the donut hole.
  - \$0 - \$2,840 Covered by patient and Medicare Part D program
  - \$2,930 - \$6,658 Covered by patient and manufacturer (50/50)**
  - \$6,658+ Covered primarily by Medicare Part D program

### Medicaid:

- Change in base rebate rate percentage to 23.1% minimum for brand products
- States' Medicaid population shifting requiring increased rebates for formulary inclusion
  - Managed Medicaid population covered by PBM is now entitled to higher Medicaid rate
- Medicaid expansion to extend coverage to those with incomes above 133% of federal poverty (beginning January 2014) struck down by US Supreme Court. States will have to determine how to handle patients through Health Insurance Exchanges. Subsidies likely required.

### Annual Fee on Branded Prescription Pharmaceutical Sales:

- Based on manufacturer's relative share of the aggregated branded drug sales across government programs (effective 2011 based on 2010 sales/market)

### Impact of Health Care Reform:

(\$MMs)	2010 ACT	2011 ACT	2012 Budget	2012 Latest Estimate	2013 Budget Proposal
Medicare Part D Coverage Gap	\$ -	\$ 42.4	\$ 34.1	\$ 44.8	\$ 45.4
Medicaid Managed Care Impact	15.8	7.4	12.5	8.2	11.4
Annual Pharmaceutical Fee	-	26.5	26.6	31.3	31.8
<b>Total</b>	<b>\$ 15.8</b>	<b>\$ 76.3</b>	<b>\$ 73.2</b>	<b>\$ 84.3</b>	<b>\$ 88.6</b>
<b>Benefit of Lower Rebate on New Formulation of OxyContin</b>	<b>\$ 40.0</b>	<b>\$ 68.9</b>	<b>\$ 74.8</b>	<b>\$ 62.5</b>	<b>\$ 65.6</b>



# The Affordable Care Act

(Cont.)

**Table 1. CBO's May 2013 Estimate of the Effects of the Affordable Care Act on Health Insurance Coverage**

EFFECTS ON INSURANCE COVERAGE <sup>a</sup>		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
(Millions of nonelderly people, by calendar year)												
Prior-Law Coverage <sup>b</sup>	Medicaid and CHIP	35	34	34	33	33	33	33	34	34	34	34
	Employment-Based	156	157	159	161	164	165	166	167	167	168	169
	Nongroup and Other <sup>c</sup>	25	25	26	26	27	27	27	27	28	28	28
	Uninsured <sup>d</sup>	<u>57</u>	<u>57</u>	<u>57</u>	<u>56</u>	<u>56</u>	<u>55</u>	<u>55</u>	<u>56</u>	<u>56</u>	<u>56</u>	<u>56</u>
	TOTAL	272	274	276	277	279	281	282	284	285	286	288
Change	Medicaid and CHIP	1	9	12	12	12	12	12	13	13	13	13
	Employment-Based <sup>e</sup>	2	*	-2	-6	-6	-7	-7	-7	-7	-7	-7
	Nongroup and Other <sup>c</sup>	*	-2	-3	-4	-5	-5	-5	-5	-5	-5	-5
	Insurance Exchanges	0	7	13	22	24	25	25	24	25	24	24
	Uninsured <sup>d</sup>	-2	-14	-20	-25	-25	-25	-25	-25	-25	-25	-25
<u>Uninsured Under the Affordable Care Act</u>												
	Number of Uninsured Nonelderly People <sup>d</sup>	55	44	37	31	30	30	30	30	31	31	31
	Insured Share of the Nonelderly Population <sup>a</sup>											
	Including All Residents	80%	84%	86%	89%	89%	89%	89%	89%	89%	89%	89%
	Excluding Unauthorized Immigrants	82%	86%	89%	91%	92%	92%	92%	92%	92%	92%	92%
<u>Memo: Exchange Enrollees and Subsidies</u>												
	Number with Unaffordable Offer from Employer <sup>f</sup>		*	*	*	1	1	1	1	1	1	1
	Number of Unsubsidized Exchange Enrollees		1	2	4	4	5	5	5	5	5	5
	Average Exchange Subsidy per Subsidized Enrollee		\$5,290	\$5,330	\$5,350	\$5,590	\$5,990	\$6,240	\$6,720	\$7,060	\$7,460	\$7,900

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

# Foreign Exchange

Risk Owner	Chief Financial Officer / Treasurer
Elements of Risk	<ul style="list-style-type: none"> <li>Purdue's foreign exchange exposure includes inflows of royalty income and outflows for German/Europe/Japan funding, Redacted R&amp;D funding, and vendor payment.</li> <li>In 2013 Budget, Purdue has an inflow of \$41 million in 11 foreign currencies and an outflow of \$173 million in 7 foreign currencies. This results in a net outflow of \$132 million from 12 foreign currencies. Purdue's foreign exchange risk is dominated by the net outflow of €118 million in Euros.</li> <li>Appreciation or depreciation of U.S. dollars against foreign currencies can have material impacts onto Purdue's cash flows and financial results versus budget.</li> </ul>
Existing Risk Management Controls	<ul style="list-style-type: none"> <li>Purdue's foreign exchange exposure is analyzed at least once a year.</li> <li>Projection of foreign exchange is provided by Bank of America.</li> <li>Multiple scenarios of foreign exchange movement are reviewed.</li> <li>Foreign exchange exposure is shared with the Board and advisors and is managed at a higher level.</li> </ul>
Further Actions	<ul style="list-style-type: none"> <li>None</li> </ul>
Reporting Procedures	<ul style="list-style-type: none"> <li>Purdue's foreign exchange exposure analysis is done at least once a year.</li> <li>The FX exposure analysis was completed in January 2013.</li> </ul>

# Foreign Exchange

(Cont.)



		2013	1/18/2013
		Budget	Foreign
		FX Rate	Exchange
		Per 1 USD	Rate
<u>Foreign Exchange Forecast Rates</u>			Spot
AUD	Australian Dollars	0.96	0.95
CAD	Canadian Dollars	0.98	0.99
CHF	Swiss Franc	0.94	0.93
EUR	Euros	0.78	0.77
GBP	British Pounds	0.62	0.62
JPY	Japanese Yen	77.80	88.00
KRW	Korean Won	1,110	1,064
MYR	Malaysian Ringgits	3.06	3.04
NOK	Norwegian Krone	5.72	5.61
NZD	New Zealand Dollars	1.20	1.19
PHP	Philippine Peso	41.70	40.91
PLN	Polish Zloty	3.20	3.17
SGD	Singapore Dollars	1.23	1.23

# Foreign Exchange

(Cont.)

Purdue Foreign Currency Exposure Summary 2013 Budget and Budget Rates \$000s - Inflows / (Outflows)	Foreign Exchange Exposure in US Dollars Equivalent						
	Euros	Canadian	Japanese	Pound	Swiss		
		Dollars	Yen	Sterling	Franc		
	EUR	CAD	JPY	GBP	CHF	Others	Total
Royalties - OxyContin	6,860	13,009	10,983	3,515	1,164	5,023	40,554
ex-USA OxyContin Development Costs	-	-	-	(1,205)	-	-	(1,205)
Significant Vendor Payments (Legal, CRO, etc.)	(4,838)	(192)	(682)	(6,582)	(736)	(2,426)	(15,457)
NET Subtotal - Inflows/(Outflows):	\$ (66,568)	\$ 12,817	\$ 10,301	\$ (4,272)	\$ 428	\$ 2,597	\$ (44,698)
Start-Up Funding (Europe, Germany)	(84,785)	-	-	-	(2,872)	-	(87,657)
NET Grand Total - Inflows/(Outflows):	\$ (151,353)	\$ 12,817	\$ 10,301	\$ (4,272)	\$ (2,444)	\$ 2,597	\$ (132,355)

Notes:

# Redacted



# Foreign Exchange

(Cont.)

## Euro/USD Exchange Rate (5-Year History)



Source: Yahoo Finance

12/1/2014

# Energy

Risk Owner	Corporate Procurement
Elements of Risk	<ul style="list-style-type: none"> <li>• Energy prices are subject to influences of many factors such as supply, demand, geopolitical event, economic policy, value of the U.S. dollars, etc.</li> <li>• Purdue's 2014 budget projected a spend of \$11.6 million in various energy uses such as electricity, natural gas and gasoline.</li> <li>• Material fluctuations in energy prices and supply could significantly impact manufacturing costs, supply chain, product supply to customers and financial results.</li> </ul>
Existing Risk Management Controls	<ul style="list-style-type: none"> <li>• Corporate Procurement placed long-term contracts: 64% of the 2014 budget are fixed-priced.</li> <li>• Long-term projection of energy prices is built into the 2014 budget assumption, i.e. average gasoline price in 2014.</li> <li>• 59% of the 2014 budget is electricity and 17% of it is variable-priced. Electricity rates are subject to regulatory review and a mix of different generation methods such as coal, gas, nuclear, hydro, etc. Material change within a 12-month window is unlikely.</li> <li>• Thus, true exposure is only at 10% (or \$1.1MM) of the 2014 energy budget.</li> <li>• Purdue's property policy that covers property damage or business interruption as a result of a service interruption has a \$100/50mm service interruption sublimit for U.S./ex-USA.</li> </ul>
Further Actions	<ul style="list-style-type: none"> <li>• None</li> </ul>
Reporting Procedures	Annual risk review with Corporate Procurement

# Energy

(Cont.)

Energy Forecast by Bank of America, 11/23/2014

## OPEC keeps oil prices low

Our [commodity strategists](#) expect WTI and Brent prices to rebound to an average of \$85/bbl and \$93/bbl in 4Q, respectively, and \$90/bbl and \$98/bbl in 2015. They see the recent swoon as supply driven with a likely OPEC supply cut on November 27 meeting ([Saudinomics for beginners](#)). In addition, the increase in global demand provides support to their 2015 forecasts. They do see risks for a WTI fall to \$75/bbl as Cushing and PADD3 stocks outpace global ones.

BofAML's base case sees only a temporary drop in oil before rebounding into year-end and in 2015. However, a high degree of uncertainty around the strength of global demand and OPEC's reaction function in particular mean oil prices could remain at current levels or lower for an extended period. We analyze such a scenario and recommend a trade to benefit from it.

The failure of Saudi Arabia to respond to the recent oil price decline with a production cut has fed speculation of a change in its reaction in response to increasing shale production, and other geopolitical realities (Russia, IS, Iran), according to our [EEMEA strategists](#). A substantial fiscal buffer provides Saudi Arabia room to weather a short-term fall in oil prices below a breakeven of \$95/bbl, allowing it to pursue goals of punishing higher costs suppliers (like Iran, Russia, and newer North American suppliers), while also maintaining/increasing its market share. Indeed, our EEMEA strategists argue a [1mn bpd oil cut would lead to only a \\$10/bbl increase in oil prices](#), incentivizing Saudi to protect oil output market share. This suggests oil could stay low, in which case incremental North American investment could suffer when current wells run dry.

# Energy

(Cont.)

<u>ELECTRIC</u>								
Vendor	Site	2014Bud	Fixed or Variable	Percent Of Spend	Contract	Years	Contract Start	Contract Rates
CL&P / Liberty	OSF	2,203,266	F	32%	Yes	3	16-Sep-13	7.51
CL&P / Liberty	Stamford Warehouse	32,000	F	0.5%	Yes	3	16-Sep-13	7.51
Nat'l Grid/TransCanada	Rhodes	1,636,490	F	24%	Yes	3	Evergreen/August 2013	10.08
PS&G / NRG	Cranbury	850,000	F	12%	Yes	3	1-Aug-13	7.47
PS&G / NRG	Totowa	1,000,000	F	15%	Yes	3	1-Aug-13	7.47
City of Wilson	Wilson	1,024,000	V	15%	No	0	Municipality (Not de-regulated)	
Con Edison	62nd Street	110,000	V	2%	No	0		
Total Electric Expense		<u>\$6,855,756</u>		<u>100%</u>				
			Electric:	17% Variable			1,134,000	
				83% Fixed			5,721,756	
<u>GAS</u>								
Vendor	Site	2014 Bud	Fixed or Variable	Percent Of Spend	Contract	Years	Contract Start	Contract Rates
Hess / Yankee Gas	OSF	125,000	F	6%	Yes	3	1-Jan-14	7.75
Hess / Yankee Gas	Stamford Warehouse	30,000	F	1%	Yes	3	1-Jan-14	7.75
PS&G / Hess	Cranbury	300,000	F	14%				5.29
PS&G / Hess	Totowa	400,000	F	19%				5.29
Nat'l Grid/Direct Energy	Rhodes	878,500	F	41%	Yes	3	Evergreen/August 2013	6.78
City of Wilson	Wilson	428,000	V	20%	No		Variable Rate (Not deregulated)	
Total Gas Expense		<u>\$2,161,500</u>		<u>100%</u>				
			Gas:	20% Variable			428,000	
				80% Fixed			1,733,500	
<u>GASOLINE</u>								
Gasoline	All	2,572,473	V					
Total Gasoline Expense		<u>\$2,572,473</u>		100% Variable			\$2,572,473	
			Totals:					
				36% Variable			\$4,134,473	
		\$11,589,729		64% Fixed			\$7,455,256	



# Insurers' Financial Stability

Risk Owner	Treasurer
Elements of Risk	<ul style="list-style-type: none"><li>• Insurer's financial ability to pay claims</li><li>• Continuity of Purdue's insurance policies</li><li>• Investment performance which affects insurer's financial position and profitability</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Review of each insurer's A.M. Best ratings which take into account insurer's claim losses and investment performance.</li><li>• Minimum A.M. Best rating of A- or above (A- = Excellent)</li></ul>
Further Actions	None
Reporting Procedures	Annual reviews prior to renewals

# Insurers' Financial Stability

(Cont.)



Adobe Acrobat  
Document

## A.M. Best Company – Insurance Financial Strength Rating

### Rating Scale – FSR

#### Secure

A++ and A+	Superior
A and A-	Excellent
B++ and B+	Good

#### Vulnerable

B and B-	Fair
C++ and C+	Marginal
C and C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Suspended

- **A.M. Best Company** is a global full-service credit rating agency dedicated to serving the financial and health-care service industries. It began assigning credit ratings in 1906, making it the first of today's rating agencies to use symbols to differentiate the relative creditworthiness of companies.
- Best's Credit Ratings are independent opinions regarding the creditworthiness of an issuer or debt obligation. Best's Credit Ratings are based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile, or, where appropriate, the specific nature and details of a debt security.

# Insurers' Financial Stability

(A.M. Best Financial Strength Rating)

Global Insurance Policies (2013-2014) - not including locally admitted policies.				
US - only	Policy Type	Limits	Best Rating (6/6/14)	Outlook
Liberty Mutual Fire Insurance Co.	Worker Comp/Employers Liability	\$2,000,000	A	Stable
Liberty Mutual Fire Insurance Co.	Auto Liability	\$2,000,000	A	Stable
Liberty Mutual Fire Insurance Co.	General Liability	\$1,750,000	A	Stable
Liberty Mutual Fire Insurance Co.	Products Front	\$10,000,000	A	Stable
Chubb	Employed Lawyers	\$3,000,000	A++	Stable
<b>Global</b>				
Swiss Re	Umbrella Liability	\$25,000,000	A+	Stable
American Guarantee & Liability (Zurich)	Excess Liability	\$25,000,000	A+	Stable
XL Insurance America Inc.	Excess Liability	\$50,000,000	A	Stable
FM Global	Property	\$1,000,000,000	A+	Stable
National Liability & Fire Ins. Co (CV Starr)	Ocean Cargo	\$20MM /\$35MM (US/Can)	A	Stable
National Union Fire Ins (AIG)	Primary D&O	\$25,000,000	A	Stable
Zurich American Insurance Company	1st Excess D&O	\$15,000,000	A+	Stable
US Specialty Insurance Co. (HCC)	2nd Excess D&O	\$15,000,000	A+	Stable
Allied World National Assurance Company (AWAC)	3rd Excess D&O - non-US	\$15,000,000	A	Stable
Arch Insurance Co.	4th Excess D&O - non-US only	\$10,000,000	A+	Stable
XL Insurance America Inc.	Excess Liability	\$25,000,000	A	Stable
National Union Fire Ins (AIG)	EPL/Fiduciary	\$15,000,000	A	Stable
Zurich American Insurance Company	Crime	\$15,000,000	A+	Stable
Great American Insurance Company	Special Contingency	\$25,000,000	A+	Stable
<b>Non - US</b>				
Insurance Co of the State of Pennsylvania (AIG)	Foreign GL/Excess/AL DIC	\$2,000,000	A	Stable
Insurance Co of the State of Pennsylvania (AIG)	Foreign EL/WC	\$2,000,000	A	Stable
Insurance Co of the State of Pennsylvania (AIG)	Non-US Products/CTA front	\$10,000,000	A	Stable
QBE International Insurance	Non-US Products/CTA excess	\$30,000,000	A	Stable
Newline	Non-US Products/CTA excess	\$15,000,000	A	Stable
<b>OSRLP</b>				
Zurich American Insurance Company	Property	\$162,087,938	A+	Stable
Zurich American Insurance Company	General Liability	\$1,750,000	A+	Stable
St. Paul Fire & Marine Insurance Co.	Umbrella Liability	\$25,000,000	A++	Stable
Zurich American Insurance Company	Excess Liability	\$25,000,000	A+	Stable

2.4.2 ♦ Financial ♦ Insurance

# Property Insurance

Risk Owner	Treasurer
Elements of Risk	<ul style="list-style-type: none"><li>• Property loss or damage</li><li>• Interruption of utilities</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Loss prevention programs</li><li>• Safety programs</li><li>• Back up manufacturing for Wilson</li><li>• Back up sourcing for API</li><li>• Purdue's property insurance has \$1 billion limits (subject to sub-limits on flood, quake, etc). Its coverage would allow Purdue to roughly cover between three and four months of sales.</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• Assess whether additional BI limits are needed/available assuming an 18 month gap between Totowa sale/shutdown and Treyburn FDA qualification for ORF.</li></ul>
Reporting Procedures	Annual risk review



2.4.2 ♦ Financial ♦ Insurance

# Property Insurance

(Cont.)

## Manufacturing Facilities

- Wilson received the 2010 Award of Excellence from FM Global. Totowa received the same award in 2011. Cranbury to receive this award in 2013. These facilities were recognized for their significant contributions and their commitment to property loss prevention. This award is given to less than 1% of the sites FM Global inspects.
- Coventry receive HPR status in late 2011.
- Wilson – converted to dual fuel boilers and installation of two 30,000 diesel tanks for the boilers and generators. This will allow Wilson to run up to eight days without electricity and gas.
- Rhodes – Generators will only run controlled shutdown of critical processes and life safety systems.
- Totowa – No generators.
- Property Insurance has \$1 billion limits (subject to sub-limits on service interruption flood, quake, etc). Based on the cost to replace the fixed assets and inventory at Wilson of approximately \$170mm and an average 2015 monthly sales margin of \$80mm, our coverage would allow us to cover up to 10 months of sales. This could be an area of risk as there could be as much as 18 month gap between sale/shutdown of Totowa and Treyburn FDA qualification for ORF.

2.4.3 ♦ Financial ♦ Insurance

# Product Liability Insurance

Risk Owner	Purdue Corporate
Elements of Risk	<ul style="list-style-type: none"><li>• Injury</li><li>• Death</li><li>• Diversion</li><li>• Abuse</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Shipping/Distribution security</li><li>• Sales and Marketing training</li><li>• Product education</li><li>• REMS</li><li>• ORF (new formulation)</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• In mid-2012, Purdue worked with two insurance brokers in exploring the insurance market capacity for a product liability policy. The conclusion was that the available product liability insurance is not cost-justified. A check of the product liability insurance markets in mid-2013 and mid-2014 resulted with same conclusion.</li><li>• Continue monitor commercial availability and price of product liability insurance</li></ul>
Reporting Procedures	Annual risk review

2.4.4 ♦ Financial ♦ Insurance

# Product Recall

Risk Owner	Purdue Corporate
Elements of Risk	<ul style="list-style-type: none"><li>• Quality</li><li>• Labeling</li><li>• Tampering</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Quality Assurance Plan</li><li>• GMP</li><li>• Quality Testing</li><li>• Recall plan in place</li><li>• \$10MM insurance for tampering as a result of a documented threat</li></ul>
Further Action	Continue to monitor recall insurance availability
Reporting Procedures	Annual risk review

# Shipping / Distribution

Risk Owner	Corporate Security
Element of Risk	<ul style="list-style-type: none"><li>• Theft</li><li>• Hijacking</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• RFID</li><li>• Shipping security protocols</li><li>• Periodic audit of carriers</li><li>• Due diligence/vetting of potential new carriers</li><li>• \$35MM (shipping within US)/\$10MM (shipping outside US) insurance per shipment</li></ul>
Further Actions	None
Reporting Procedures	Annual review



3.1.1 ♦ Operational ♦ Value-Chain

## Customers – Credit Risk

Risk Owner	Sales Department
Elements of Risk	<ul style="list-style-type: none"><li>• Creditworthiness of customers</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Annual review of all customers with exposures &gt; \$25k or &gt; \$50k annual sales (i.e. about ~120 customers are annually reviewed.)</li><li>• News alerts of publically-traded customers are reviewed daily.</li><li>• For privately-held companies we receive at minimum annual reports and for some interim financials. We have good relationships with their senior financial management and talk as needed.</li><li>• Credit lines are based on customer needs and ability to pay.</li><li>• Additional credit requests exceed \$1.0mm--the Controller must approve our exposure, and if it exceeds \$2.0mm the EVP/CFO must approve the exposure.</li></ul>
Further Actions	None
Reporting Procedures	<ul style="list-style-type: none"><li>• Significant customer developments are communicated with Sales, Customer Service, and others promptly</li><li>• Annual review performed by Credit Department</li></ul>

# Customers – Credit Risk

(Cont.)

- During 2014, Purdue's average accounts receivable balance was \$261 million.
- Our 3 largest customers—AmerisourceBergen, Cardinal Health, and McKesson Corp.—account for approximately 90% of our sales and accounts receivable.
- If one of these Big 3s went under, the supply to our end customers would be uninterrupted since customers would go to their secondary suppliers.
- Based on current credit review, we think that it is unlikely to encounter a credit risk from one of the Big 3 wholesalers in the immediate time horizon.

# Vendors – Financial Risk

Risk Owner	Procurement
Elements of Risk	<ul style="list-style-type: none"><li>• Continuity of mission-critical supplies, materials, and services</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Upon request by business managers, Credit will review new vendors who have potential significant spend as part of the RFP process.</li></ul>
Further Action	None
Reporting Procedure	None

3.1.3 ♦ Operational ♦ Value-Chain

# Supply Chain – Continuity

Risk Owner	Corporate Procurement
Elements of Risk	<ul style="list-style-type: none"><li>• Disruption of critical raw material supplies</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Qualify secondary source</li><li>• Proprietary sources should have back up manufacturing sites</li><li>• Review Business Continuity Plan of suppliers</li><li>• Stock ample levels of raw material without secondary source</li><li>• Due diligence is performed on prospective suppliers/manufacturers of a pending licensing and business development transaction.</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• Consider qualifying a backup for Morphine Sulfate API for Rhodes Pharma (Note: A second source strategy is in place for morphine for Rhodes Pharma. Plan is to qualify Rhodes Technologies API, scheduled to be available in 4<sup>th</sup> quarter 2014.)</li></ul>
Reporting Procedures	Annual reporting



3.1.4 ♦ Operational ♦ Value-Chain

# 3<sup>rd</sup>-Party Partner Financial Obligations

Risk Owner	Chief Financial Officer
Elements of Risk	<ul style="list-style-type: none"><li>• Non compliance of contractual obligation</li><li>• Failure to receive cash inflows timely</li><li>• Failure to pay cash outflows timely</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Negotiated contract terms developed by a cross-functional team (including Finance)</li><li>• Audit rights included in all contracts</li><li>• Identified individuals responsible for the 3rd-party financial obligations: cash outflows or inflows and reporting</li><li>• Monitoring of business partners including review of public disclosures and financial statements</li><li>• Specific Finance staff members are assigned to manage the financial obligations of key 3rd-party partners.</li><li>• Quarterly royalty (incoming or outgoing) reports are prepared by Finance staff and reviewed/shared with CFO</li><li>• Additional details and explanations are requested for unusual sales variances and significant gross-to-net deductions</li></ul>
Further Actions	None
Reporting Procedures	<ul style="list-style-type: none"><li>• Quarterly royalty (incoming or outgoing) reports are prepared by Finance staff and reviewed/shared with CFO</li></ul>

3.1.5 ♦ Operational ♦ Value-Chain

# PBM Frauds

Risk Owner	Pricing & Contract Administration (PCA) & Payer Marketing (PM)
Elements of Risk	<ul style="list-style-type: none"><li>• Risks in contracting</li><li>• Enforcement of contracts</li><li>• Audit of contract terms require additional resources and utilization of 3<sup>rd</sup> party auditors for major PBMs</li><li>• Invalid/fraudulent activities</li><li>• Maintain relationship with payors, while ensuring compliance</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• PM oversees discounts and rebating strategy is aligned with the approved brand strategy document (approved by President and CEO).</li><li>• Audits of contract terms by Purdue or third-party auditors</li><li>• Data validation of 99% of commercial and Medicare Part D business by IMS.</li><li>• Semi-annual formulary compliance validation of at least top 80% of plans</li><li>• Review trends of PBM rebates, in relation to sales trend</li><li>• Monitor managed care industry news</li></ul>
Further Actions	None
Reporting Procedures	<ul style="list-style-type: none"><li>• PCA reports audit findings to Executive Audit Committee at least annually.</li><li>• Payer Marketing to report managed care contract and discount rate updates on a weekly basis.</li></ul>

3.2.1 ♦ Operational ♦ Information Technology

# Cyber Security

Risk Owner	Chief Information Officer
Elements of Risk	<ul style="list-style-type: none"><li>• Targeted attacks</li><li>• Viruses and Malware</li><li>• Data loss (theft, unauthorized disclosure or modification)</li><li>• Intrusions</li><li>• Insider threats (Disgruntled employees and credential disclosure)</li><li>• Supply Chain system disruption</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• Endpoint protection (Anti-virus, Intrusion detection)</li><li>• Select system log aggregation and correlation</li><li>• Host and network based firewalls</li><li>• Employee and administrative access control</li><li>• GPS support (for Purdue's shipments)</li><li>• Cloud proxy with web anti-virus/content filtering</li><li>• Data Protection Policy</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• Annual end user audit</li><li>• Improve intrusion prevention capability</li></ul>
Reporting Procedures	Annual Reporting

3.2.2 ♦ Operational ♦ Information Technology

# Disaster Recovery / Backup Systems

Risk Owner	Chief Information Officer
Elements of Risk	<ul style="list-style-type: none"><li>• Data center outage</li><li>• Data center force majeure</li><li>• Loss of production data</li></ul>
Existing Risk Management Controls	<ul style="list-style-type: none"><li>• 100% of production systems replicated to standby in remote site</li><li>• Stamford Data Center and Wilson Data Center utilizing disk backups</li><li>• Establish hot sites/warm sites</li><li>• Best case recovery time is 48 hours for mission-critical applications</li><li>• Periodic disaster recovery exercises to test processes</li><li>• Periodic data restores to verify backup data</li></ul>
Further Actions	<ul style="list-style-type: none"><li>• Retire legacy tape systems</li><li>• Improve recovery automation to reduce the time to recovery for replicated systems</li></ul>
Reporting Procedures	Annual reporting